

## HSBC India Services PMI™ (with Composite PMI data)

### Indian private sector output expands at slowest pace since April

#### Summary

The health of the Indian private sector continued to improve in July, as signalled by the latest PMI data. The HSBC India Composite Output Index posted 54.4 in July, down from 55.7 in June. The latest reading pointed to the slowest expansion of output in three months.

After adjusting for seasonal factors, the headline HSBC Services Business Activity Index - which is based on a single question asking respondents to report on the actual change in business activity at their companies compared to one month ago - posted 54.2 in July, down from 54.3 in June. Production at manufacturing firms meanwhile increased at a marked pace, but the slowest since November 2011

New orders at private sector companies in India rose steeply in July. However, the pace of increase slowed from that recorded in June and the New Orders Index was the lowest since November 2011. The volume of incoming new work expanded in both sectors surveyed, with services firms signalling a faster increase.

Job creation was recorded at manufacturers and service providers during July. The pace of increase was broadly similar across both sectors, resulting in a slight rise in workforces at Indian private sector firms. Services companies stated that workforces were increased in order to meet stronger demand.

With employment increasing at Indian private sector firms, backlogs of work fell slightly. Although services firms accumulated backlogs, manufacturers recorded a modest depletion. That said, the pace of contraction in backlogs was the same as that recorded in June.

Input prices rose sharply at manufacturers in India and at a faster pace than the rise recorded at service providers. Hence, the composite data posted a further increase in input costs, extending the current inflationary period to 40 months. That said, the pace of increase in July was the slowest since October 2010.

Meanwhile, prices charged increased steeply at private sector firms in India. However, the pace of inflation slowed from June data, but remained above the long-run trend for the series. Service providers reportedly passed higher cost burdens on to their clients as labour and raw material prices increased. Manufacturers stated that fuel, labour and raw material costs increased, leading to the latest adjustment in charges.

Service providers remained optimistic that activity will rise further over the coming year, although the level of sentiment dipped to the lowest since March.

#### Comment

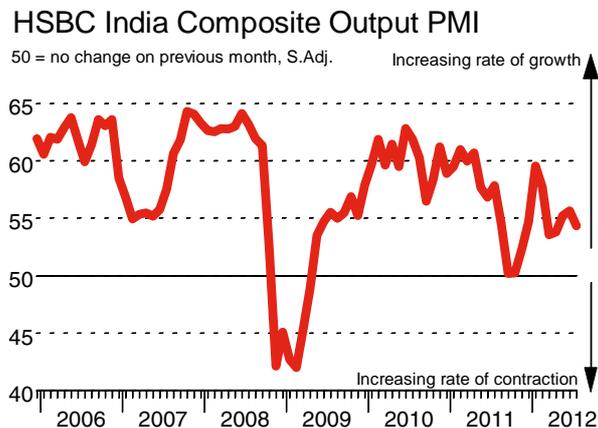
Commenting on the India Services PMI™ survey, Leif Eskesen, Chief Economist for India & ASEAN at HSBC said:

*“Service sector activity grew at a steady pace in July, with growth in new orders and employment holding up. Inflation readings eased, but remain firm on the back of rising wage costs and solid demand. With inflation risks still lingering despite the slowdown and policy action out of Delhi so far insufficient, the RBI has little room to manoeuvre.”*

#### Key points

- Output growth recorded for thirty-ninth successive month
- New orders expand substantially
- Input price inflation slowest in 21 months

#### Historical Overview



**For further information, please contact:**

## **HSBC**

Leif Eskesen, Chief Economist for India & ASEAN  
Telephone +65-6239-0840  
Email leifeskesen@hsbc.com.sg

Rajesh Joshi  
Telephone +91-22-2268-1695  
Email rajeshjoshi@hsbc.co.in

Neha Hora  
Telephone +91-22-2268-5337  
Email nehahora@hsbc.co.in

## **Markit**

Pollyanna De Lima, Economist  
Telephone +44-1491-461-075  
Email pollyanna.delima@markit.com

Caroline Lumley, Corporate Communications  
Telephone +44-20-7260-2047  
Mobile +44-781-581-2162  
Email caroline.lumley@markit.com

## **Notes to Editors:**

The HSBC India Services PMI™ is based on data compiled from monthly replies to questionnaires sent to purchasing executives in around 350 private service sector companies. The panel has been carefully selected to accurately replicate the true structure of the services economy.

The HSBC India Composite PMI™ is a weighted average of the Manufacturing Output Index and the Services Business Activity Index, and is based on original survey data collected from a representative panel of over 800 companies based in the Indian manufacturing and service sectors.

Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

The Purchasing Managers' Index (PMI) survey methodology has developed an outstanding reputation for providing the most up-to-date possible indication of what is really happening in the private sector economy by tracking variables such as sales, employment, inventories and prices. The indices are widely used by businesses, governments and economic analysts in financial institutions to help better understand business conditions and guide corporate and investment strategy. In particular, central banks in many countries use the data to help make interest rate decisions. PMI surveys are the first indicators of economic conditions published each month and are therefore available well ahead of comparable data produced by government bodies.

Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact [economics@markit.com](mailto:economics@markit.com).

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