

HSBC India Services PMI™ (with Composite PMI data)

Private sector activity expands at fastest pace in three months

Summary

The HSBC India Composite Output Index posted 55.0 in September, up from August's reading of 54.3, and signalling a further improvement in Indian private sector activity. The pace of expansion was marked, but the index posted below the series long-run trend.

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 55.8 in September, higher than the reading of 55.0 in August. Furthermore, production in the manufacturing sector expanded solidly, with growth accelerating from August.

Order book volumes in the Indian manufacturing sector increased solidly, amid reports of stronger demand, good marketing strategies and product quality. In the service sector, new orders expanded at a sharp rate, the fastest in seven months. Consequently, the volume of incoming new work at private sector firms increased steeply.

Job creation was recorded in the Indian private sector during September, marking a seven-month sequence of expanding workforces. Services and manufacturing firms both signalled increasing payroll numbers, with the rate of growth faster at manufacturers.

With services companies reporting a depletion of backlogs but manufacturers signalling a solid accumulation, the volume of outstanding business in the Indian private sector increased only slightly. Persistent powercuts continued to affect backlogs of work in the manufacturing sector, it was reported.

Input costs increased sharply in the Indian private sector during September. Manufacturers registered the fastest increase in input prices since June, and linked persistent inflation to rising raw material and diesel prices. Service providers also registered input cost inflation, though at a slower pace than manufacturers. Anecdotal evidence suggested that labour, fuel, petroleum and gold prices were higher, with some mentions of increasing taxes and excess demand.

As a consequence, charges in the private sector increased again, as has been the case since June 2009. Services and manufacturing companies both signalled rising output prices with the rate of inflation faster in the manufacturing sector.

Services companies remained optimistic regarding the short-term business outlook. That said, the degree of positive sentiment in September was at a six-month low.

Comment

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

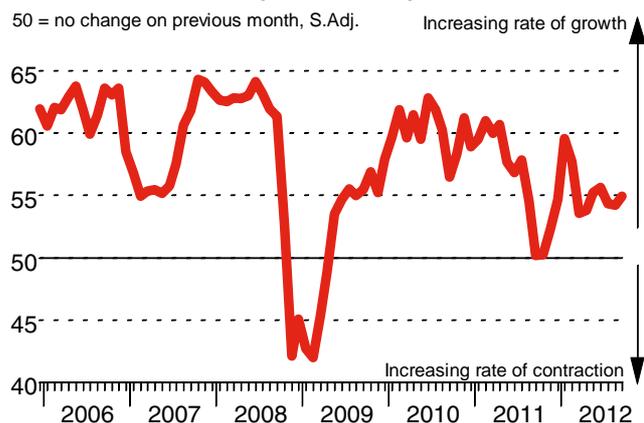
“Service sector activity grew at a faster clip in September led by firm demand, underscoring the resilience of the service sector. This further lifted employment, which helped businesses keep up with orders. However, inflation pressures firmed again on the back of rising costs. The RBI has limited room for policy rate cuts given the persistence of inflation, although further progress on fiscal consolidation and structural reforms may eventually pave the way for some easing.”

Key points

- Growth of new orders in the private sector at a three-month high
- Slowest increase in charges since March at private sector firms
- Service sector optimism at six-month low

Historical Overview

HSBC India Composite Output PMI



Sources: Markit, HSBC.

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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.

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