HSBC Purchasing Managers' Index™ Press Release

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HSBC India Services PMITM (with Composite PMI data)

Activity growth in the private sector slowest in 11 months

Summary

The HSBC India Composite Output Index posted 53.5 in October, down from the reading of 55.0 in September, to signal a further improvement in private sector activity in India. Although solid, the rate of expansion was the slowest in 11 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 53.8 in October, down from reading of 55.8 in September. Although, this signalled robust growth, the rate of expansion was the slowest since April.

Output in the Indian service sector increased, amid reports of stronger demand. The rate of expansion was solid, but the slowest since April. Manufacturing companies also recorded higher production. The rate of growth was moderate as power shortages contributed to slower growth.

New total business in the Indian private sector increased in October. The rate of expansion was sharp. Services companies signalled higher new business, citing strengthening demand, maintained brand reputation and good quality of services. Order book volumes at manufacturing companies also expanded.

Job creation was recorded at private sector firms in India. However, the pace of growth was only slight and the slowest in three months. Workforces increased at both manufacturers and service firms, with the rate of expansion faster at manufacturing companies.

Input cost inflation in the Indian private sector persisted during October, marking a 43-month sequence of rising costs. Input prices were higher at both manufacturers and services companies. The rate of inflation in the service sector was sharp, and the quickest in four months. According to respondents, fuel, labour, gold, oil and gas prices all increased.

Subsequently, prices charged increased. Services companies stated that increasing raw material, petrol, food, gold and rental costs had all led to higher output prices. Manufacturing firms also signalled greater factory gate prices. That said, the rate of inflation at manufacturers was the slowest since November 2010.

Service providers in India signalled optimism regarding the short-term business outlook during October. Anecdotal evidence suggested that planned expansions, increased marketing and the launch of new projects were expected to drive output growth.

Comment

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

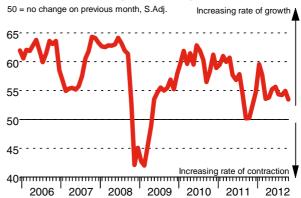
"The services sector slowed in October, but remained firmly in expansionary territory. Growth in new orders eased slightly and firms scaled back the pace of hiring. At the same time, outstanding business rose reportedly due to delay in payments, which to some extent could also explain the slower pace of growth in business activity. Unfortunately inflation readings continued to tick up, with higher raw material costs and solid demand keeping inflation pressures firm. The latter explains why the RBI remains hesitant about easing monetary policy."

Key points

- Powercuts contribute to slower growth in the manufacturing sector
- Service companies record sharp increase in new total business
- Eight successive increase in workforces at private sector companies

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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