HSBC Purchasing Managers' Index™ Press Release

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HSBC India Services PMITM (with Composite PMI data)

Private sector output growth eases to a three-month low

Summary

Private sector output in India increased for the forty-sixth successive month during February. The HSBC India Composite Output Index posted 54.8 in February, down from 56.3 in January. The latest reading indicated that activity rose at a solid rate, one that was the slowest in three months. Whereas output growth in the manufacturing sector accelerated, a slowdown was registered at service providers.

After adjusting for seasonal factors, the Business Activity Index posted 54.2 in February (down from 57.5 in January), indicating a continued, albeit slower, expansion of service sector activity in India. Despite posting above the no-change threshold for the sixteenth successive month, the latest index reading was three points below the long-run series average. Anecdotal evidence suggested that output growth reflected higher levels of new orders.

Incoming new business placed at Indian private sector firms increased solidly during February. New orders rose at both manufacturing and services companies. Service providers mentioned that stronger demand, increased marketing and maintained quality of services all fed through to the latest rise in new orders.

In line with new order growth, backlogs of work in the Indian private sector rose for a further month. Manufacturers registered a moderate rise, but in the service sector unfinished business levels expanded solidly and at the quickest pace in 32 months.

Meanwhile, staffing levels at private sector firms rose slightly in February. Employee headcounts have increased in each month since March 2012, and at a broadly steady pace. Slight rises were signalled in both the manufacturing and service sectors. Anecdotal evidence suggested that payroll numbers were increased in tandem with new business growth.

Average prices paid by service providers in India increased sharply in February, with the rate of inflation the fastest since June last year. In the manufacturing sector, input price inflation remained robust. Panel members that mentioned a rise in input costs mainly linked this to increased raw materials and fuel prices.

Companies operating in the Indian private sector continued to pass on higher costs to clients through increased output prices. With the rate of charge inflation accelerating at both manufacturing and services firms, the overall pace of inflation was sharp, and the fastest in seven months. Output prices have increased in each month since June 2009.

Service providers again signalled optimism regarding the 12-month outlook. Around 42% of survey respondents anticipate activity levels to be higher in the upcoming year. This compared with only 3% that expect a reduction. Subsequently, the degree of positive sentiment was strong, although unchanged from that seen in the previous survey period. Panellists reported that better economic conditions, increased marketing and maintained quality of services all should lead to higher activity over the coming year.

Comment

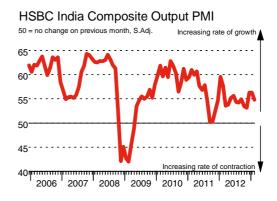
Commenting on the India Services PMI[™] survey, Leif Eskesen, Chief Economist for India & ASEAN at HSBC said:

"Activity in the services sector grew at a slower clip led by a deceleration in new business, but backlogs of work still increased. Input price inflation picked up notably, which was passed onto prices charged. The numbers underscore that the room for monetary policy easing is very limited."

Key points

- Manufacturing sector output accelerates but activity at services firms rises at slower pace
- Input and output price inflation quickens at private sector companies
- Further optimism signalled by service providers

Historical Overview



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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