

HSBC India Services PMI™ (with Composite PMI data)

Growth of private sector output fastest in three months, but remains subdued

Summary

Indian private sector output grew moderately in May, with the current expansionary period extended to 49 months. The HSBC India Composite Output Index posted 52.0, up from 50.5 in April. The latest reading signalled the fastest increase in business activity since February, but a rate of growth that remained historically muted.

The seasonally adjusted HSBC Services Business Activity Index posted 53.6 in May, up from 50.7, pointing to a solid expansion in output, one that was the fastest in three months. This contrasted with a fall registered in manufacturing output, the first decline in 50 months.

May data pointed to higher levels of new work placed at private sector firms in India. The rate of expansion was moderate and little-changed from April. Service providers stated that demand was stronger and new products were launched. Manufacturers reported weaker gains in incoming new work, tough market conditions and increased competition.

Overall employment growth across the Indian private sector was slight and unchanged from April. Nevertheless, the current period of job creation was extended to 15 months. Slight rises were signalled in both the manufacturing and service sectors. Anecdotal evidence suggested that staffing levels were increased in line with new business growth.

Companies operating in the Indian goods-producing sector signalled higher backlogs of work in May, amid reports of power and water shortages. Unfinished business levels also rose in the service sector, albeit at a much slower pace. Delayed payments from clients were mentioned by service providers.

Prices paid for inputs by Indian private sector firms rose during May. That said, the overall rate of cost inflation was the weakest since November 2009. Slower inflation rates were registered in the service and manufacturing sectors. Goods producers reported higher prices paid for oil, chemicals and machinery spare parts, but there were mentions that metals and plastic costs had fallen. Service providers commented on higher raw material, fuel and labour costs.

Private sector firms attempted to offset increased cost burdens by raising their selling prices. The rate of charge inflation was, however, modest and the weakest in 31 months. Panellists commented that competitive pressures had limited their pricing power.

Optimism was signalled by service providers in India during May. The level of positive sentiment was at a five-month high. Services firms expect that better economic conditions combined with increased marketing and the introduction of new services will lead to higher customer numbers.

Comment

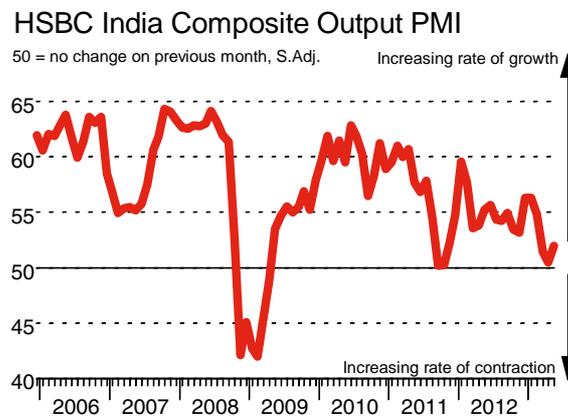
Commenting on the India Services PMI™ survey, Leif Eskesen, Chief Economist for India & ASEAN at HSBC said:

“Service sector activity picked up pace in May led by firmer order flows. Moreover, companies were more optimistic about the domestic and global economic outlook. Notwithstanding the uptick in growth, inflation gauges eased further on the back of strong competition and moderating cost pressures. With growth still moderate and inflation softening, the probability of another RBI rate cut has increased.”

Key points

- Output increases at services companies, but falls at manufacturers
- New orders placed at private sector companies expand moderately
- Input and output price inflation across the private sector eases for third month running

Historical Overview



Sources: Markit, HSBC.

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.

HSBC Holdings plc:

HSBC is one of the world's largest banking and financial services organisations, with around 6,600 offices in both established and faster-growing markets. We aim to be where the economic growth is, connecting customers to opportunities, enabling businesses to thrive and economies to prosper, and ultimately helping people to fulfil their hopes and realise their ambitions.

We serve around 58 million customers through our four global businesses: Retail Banking and Wealth Management, Commercial Banking, Global Banking and Markets, and Global Private Banking. Our network covers 81 countries and territories in six geographical regions: Europe, Hong Kong, Rest of Asia-Pacific, Middle East and North Africa, North America and Latin America. Our aim is to be acknowledged as the world's leading international bank.

Listed on the London, Hong Kong, New York, Paris and Bermuda stock exchanges, shares in HSBC Holdings plc are held by about 220,000 shareholders in 129 countries and territories.

About Markit:

Markit is a leading, global financial information services company with over 2,800 employees. The company provides independent data, valuations and trade processing across all asset classes in order to enhance transparency, reduce risk and improve operational efficiency. Its client base includes the most significant institutional participants in the financial market place. For more information please see www.markit.com

About PMIs:

Purchasing Managers' Index™ (PMI™) surveys are now available for 32 countries and also for key regions including the Eurozone. They are the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to www.markit.com/economics

The intellectual property rights to the HSBC India Services and Composite PMI™ provided herein is owned by Markit Economics Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. *Purchasing Managers' Index™* and *PMI™* are trade marks of Markit Economics Limited, HSBC use the above marks under license. Markit and the Markit logo are registered trade marks of Markit Group Limited.