

HSBC India Services PMI™ (with Composite PMI data)

Private sector output expands at marginal pace in June

Summary

Business activity across the Indian private sector rose for the fiftieth consecutive month in June. However, with services companies registering weaker output growth and manufacturers posting a second consecutive monthly decline, the HSBC India Composite Output Index fell from 52.0 in May to 50.9. This was consistent with a marginal rate of expansion, one that was the second-weakest in over a year-and-a-half.

The seasonally adjusted HSBC Services Business Activity Index fell from May's three-month high (53.6) to 51.7, indicating a modest rise in activity levels across India during June. Anecdotal evidence suggested that weaker gains in new work and subdued economic conditions were behind the deceleration in output growth. Sector data indicated that business activity expanded in three of the six monitored categories. The strongest rise was recorded at 'Other Services'.

New orders placed at private sector firms in India increased during June. That said, the overall rate of expansion was slight and the weakest in the current 50-month period of growth. Services companies registered weaker gains in new work, while production at manufacturers fell for the first time since March 2009. Panellists commented on subdued economic conditions and increased competition for new work.

Nevertheless, employment increased at faster rates across both the manufacturing and service sectors. Job creation for the private sector overall was moderate, but the quickest in nine months. Meanwhile, unfinished business levels rose for the eleventh successive month in June. Manufacturers recorded a sharp accumulation in backlogs of work and linked the rise to power, raw material and water shortages. Volumes of work-in-hand at service providers also rose, albeit marginally, with firms commenting on delayed payments from clients.

Faster rates of inflation were signalled in the Indian private sector during June. Input prices rose solidly and at the quickest pace in three months, amid evidence of higher raw material, labour and fuel costs. There were also comments of unfavourable exchange rates. Average selling prices were then raised for the forty-ninth month running. Despite accelerating from May, the rate of charge inflation was slight as competitive pressures persisted and limited companies' pricing power.

Service providers again expressed optimism towards output growth in the one-year outlook. However, the degree of positive sentiment fell to the lowest in eight months.

Business activity is expected to expand in line with forecasts of stronger demand and increased marketing. Positive sentiment was signalled across all six service sub-sectors, as has been the case since the survey started in December 2005.

Comment

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

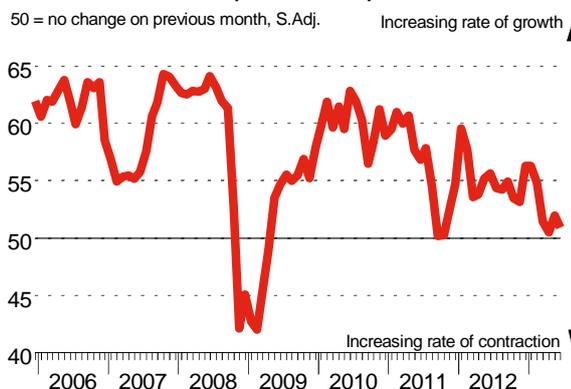
"Service sector activity grew at a slower clip as new business flows moderated, which made businesses less optimistic about the year ahead. Notwithstanding the slowdown, inflation readings firmed on the back of higher labour and raw material prices, with the depreciation of the Rupee also cited as a factor."

Key points

- Output in the service sector rises at slower rate, while manufacturers register a contraction
- New business growth in the private sector weakest in 50-month expansionary sequence
- Rates of inflation accelerate

Historical Overview

HSBC India Composite Output PMI



Sources: Markit, HSBC.

Further information on service sub-sectors is available in the main report at: www.hsbc.com

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.

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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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