HSBC Purchasing Managers' Index™ Press Release

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compiled by markit

HSBC India Services PMI™ (with Composite PMI data)

Private sector output falls at faster pace in August, as new orders contract

Summary

Business activity in the Indian private sector fell at a moderate and accelerated pace in August, reflecting faster contractions of both manufacturing and services output. Down from 48.4 to 47.6 in August, the HSBC India Composite Output Index posted below the 50.0 no-change mark for the second consecutive month. Evidence from panellists highlighted falling volumes of incoming new work and tough economic conditions.

The seasonally adjusted HSBC Services Business Activity Index fell from 47.9 to 47.6 in August, indicating a further, albeit moderate, contraction of output across the Indian service economy. Out of the six monitored sub-categories, four recorded a reduction in business activity, the exceptions being Financial Intermediation and Post & Telecommunication. The fastest contraction was registered at Transport & Storage companies.

Manufacturing and services companies both signalled lower volumes of new business in August, with the quickest contraction noted at the latter. Subsequently, new orders in the Indian private sector fell solidly and at the fastest pace in almost four-and-a-half years. Anecdotal evidence suggested that an uncertain economic outlook had dampened client confidence.

Concurrently, the degree of optimism across the service sector weakened for the third consecutive month, with the index measuring business sentiment reaching a 17-month low.

Job creation in the Indian service sector was, however, sustained in August, albeit at a fractional pace. Similarly, manufacturers hired additional workers during the latest month. Companies reporting higher payroll numbers commented on increased business requirements.

Faced with lower new business levels, private sector companies in India worked through their backlogs in August. Unfinished work fell for the first time since July 2012, although marginally. Declines in the service sector offset rises at manufacturers.

Input cost inflation in the Indian private sector accelerated to the sharpest in six months. Whereas prices paid by services firms rose at a faster pace, manufacturers saw a slowdown in cost inflation. Service providers indicated that a range of raw materials, fuel, transport and labour costs increased over the month. Goods-producers reported higher prices paid for imported raw materials, in part due to a weaker currency.

Despite robust cost inflation, private sector firms raised their selling prices only marginally in August, amid reports of increased competitive pressures. The overall rate of charge inflation eased to the weakest in three months.

Comment

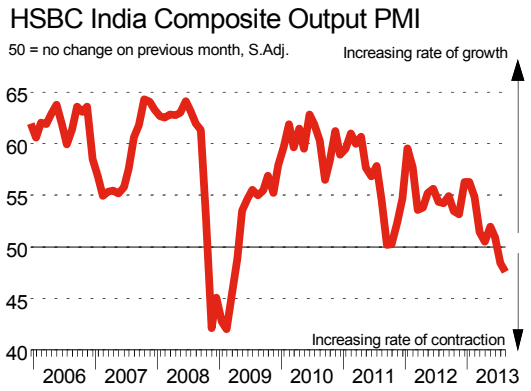
Commenting on the India Services PMI™ survey, Leif Eskesen, Chief Economist for India & ASEAN at HSBC said:

"Service sector activity slowed further in August led by weaker new business flows, which led to a slowdown in employment growth and a decline in sentiment among service sector companies. Meanwhile, price pressures firmed as input costs rose and were passed on to final prices. The numbers we have seen so far for July and August for both the manufacturing and service sectors point to a further slowdown in GDP growth during the third quarter."

Key points

- Output falls at both manufacturers and service providers
- New orders received by private sector firms contracts at fastest rate since March 2009
- Input cost inflation in private sector strongest in six months

Historical Overview



Sources: Markit, HSBC.

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

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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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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