

HSBC India Services PMI™ (with Composite PMI data)

Private sector output contracts at fastest rate in four-and-a-half years

Summary

Down from August's 47.6 to 46.1 in September, the HSBC India Composite Output Index declined to its lowest mark in four-and-a-half years to signal a sharp deterioration in business activity across the country's private sector. Whereas the fall in manufacturing production eased, service providers recorded an accelerated decline in output.

The seasonally adjusted HSBC Services Business Activity Index dipped from 47.6 in August to 44.6 in September, with five of the six sectors covered by the survey posting lower output (except Post & Telecommunication). The latest reading was consistent with a sharp contraction in business activity and one that was the fastest since March 2009.

Underlying the fall in private sector output was a third consecutive drop in new order levels. Incoming new work contracted sharply and at the quickest pace since February 2009, with panellists commenting on weaker demand and a difficult economic climate. While manufacturers posted a marginal and slower decline in new orders, service providers registered a sharp drop. Furthermore, for the first time in the survey history all six service sub-sectors recorded falling new business.

September data pointed to a weaker degree of positive sentiment in the Indian service sector, with the index measuring business sentiment dropping to its lowest mark since February 2009. Although panel members expressed optimism for output growth in the coming year, concerns about exchange rate fluctuations weighed on confidence.

In response to lower volumes of incoming new work, private sector firms reduced their workforce numbers. The marginal fall in employment was broad-based, with both manufacturers and service providers reporting job shedding for the first time in 19 months.

Outstanding business levels fell at services firms in September, while manufacturers reported growth. The rate of backlog depletion across the Indian private sector as a whole was modest, but the fastest since March 2009.

Prices paid for inputs by private sector companies in India rose sharply in September and at the strongest rate in seven months. Manufacturing companies indicated that a depreciation of the rupee against the US dollar had resulted in higher prices paid for imported raw materials, whereas service firms commented on increased fuel, food and transport costs.

Nevertheless, competitive pressures persisted and selling prices were raised at only slight rates across both the manufacturing and service sectors.

Comment

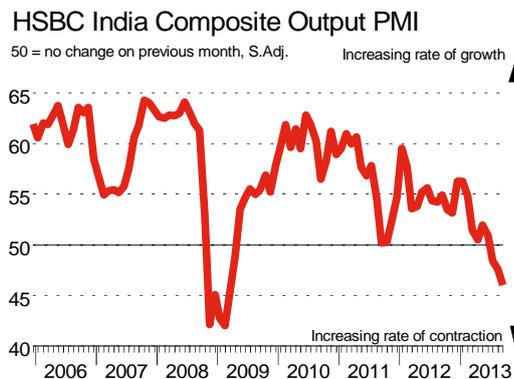
Commenting on the India Services PMI™ survey, Leif Eskesen, Chief Economist for India & ASEAN at HSBC said:

"Service sector activity contracted further in September, with the index dropping to its lowest reading in more than four years as tighter financial conditions and heightened macroeconomic uncertainty weighs on growth. This was led by the sharpest contraction in new business since February 2009 driven by weaker order flows in renting & business activities, hotels & restaurants and financial intermediation. In turn, this led to a small decline in employment and weakening business sentiment. Despite the weak growth backdrop, inflation readings held broadly steady. This, in turn, supports RBI's stepped up efforts to better anchor inflation expectations."

Key points

- Service sector output contracts at sharp pace
- New business received by private sector firms decrease at quickest pace since February 2009
- Private sector employment falls for first time in 19 months

Historical Overview



Sources: Markit, HSBC.

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.

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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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