HSBC Purchasing Managers' Index™ Press Release

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HSBC India Services PMITM (with Composite PMI data)

Private sector output contracts at moderate and slower rate

Summary

The HSBC India Composite Output Index posted below the 50.0 no-change mark for the fourth consecutive month in October, indicating a further contraction. That said, the headline index rose from 46.1 to 47.5 in October, signalling a moderate and slower drop in private sector business activity. Output fell at a slower rate across the service sector.

At 47.1 in October, the seasonally adjusted HSBC Services Business Activity Index rose from September's four-and-a-half year low of 44.6. Nonetheless, the latest reading indicated a fourth successive monthly contraction of service sector output across India. Sector data indicated that business activity fell in five of the six categories monitored by the survey, with the sharpest decline noted at Hotels & Restaurants.

Lower levels of private sector output mirrored a further decrease in new business flows. As with the trend for activity, incoming new work contracted at a slower rate in services, but quickened in manufacturing. Anecdotal evidence indicated that worsening client confidence, economic instability, competitive pressures and the cyclone Phailin had all contributed to the latest drop in new work. For the second successive month, all six service sub-sectors posted lower new business volumes. The fastest decline was noted at Hotels & Restaurants.

Whereas employment in the manufacturing sector rose slightly, service providers indicated little change in their payroll numbers during October. Consequently, the rise in staffing levels across the Indian private sector as a whole was only marginal. Four of the six monitored service categories posted job shedding, the exceptions being Renting & Business Activities and 'Other Services'.

Ending a two-month sequence of contraction, backlogs of work in the Indian private sector were unchanged from the levels recorded one month previously. Higher unfinished business at manufacturers offset declines at service providers. Services firms highlighted recent reductions in new business as the main reason behind the latest drop in backlogs.

Inflation rates in the Indian private sector rose during October, with input prices increasing at the quickest pace in 16 months and the rate of charge inflation climbing to a seven-month high. These were driven by faster increases in the goods-producing sector, as the rates of input and output price inflation were unchanged at services companies.

Robust optimism regarding output growth in the coming year was sustained during October. Panellists expect the launch of new services, planned increases in marketing budgets and forecasts of better economic conditions do support demand growth in the year ahead.

Comment

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

"The continued contraction in service sector activity is testament to the dampening effects of the heightened macroeconomic uncertainty, which is making businesses and consumers more cautious about spending. While activity readings may be stabilizing, a notable recovery is not in the cards for a while still. Despite the weak growth backdrop, the RBI has to keep its inflation guards up to address the lingering inflation pressures."

Key points

- Slower pace of activity reduction at service providers
- New business placed at private sector firms drops for fourth consecutive month
- Marginal increase of private sector employment

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





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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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