

# HSBC India Services PMI™

Output growth eases from May's three-month high

**Key findings:**

- Business activity and new orders expand modestly
- Input and output price inflation accelerate
- Level of positive sentiment lowest in eight months

Output in the Indian service sector increased at a weaker rate in June, in line with a slowdown in new order growth. Business activity rose modestly, with the pace of expansion slowing from May's three-month high. Having eased in May, both input and output price inflation accelerated. Meanwhile, the degree of optimism towards output growth in the year ahead was the least marked in eight months.

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 noted at 'Other Services'.

New business also rose modestly, with the rate of growth easing to the weakest since October 2011. Service providers commented that adverse weather, competitive pressures and frail economic conditions all had led to weaker gains in new work. From the four sectors recording higher volumes of new work, Post & Telecommunication signalled the fastest expansion, followed by 'Other Services'.

Employment in the Indian service sector rose for the sixteenth successive month in June. The rate of job creation was modest overall, but the quickest in that sequence. Nonetheless, backlogs

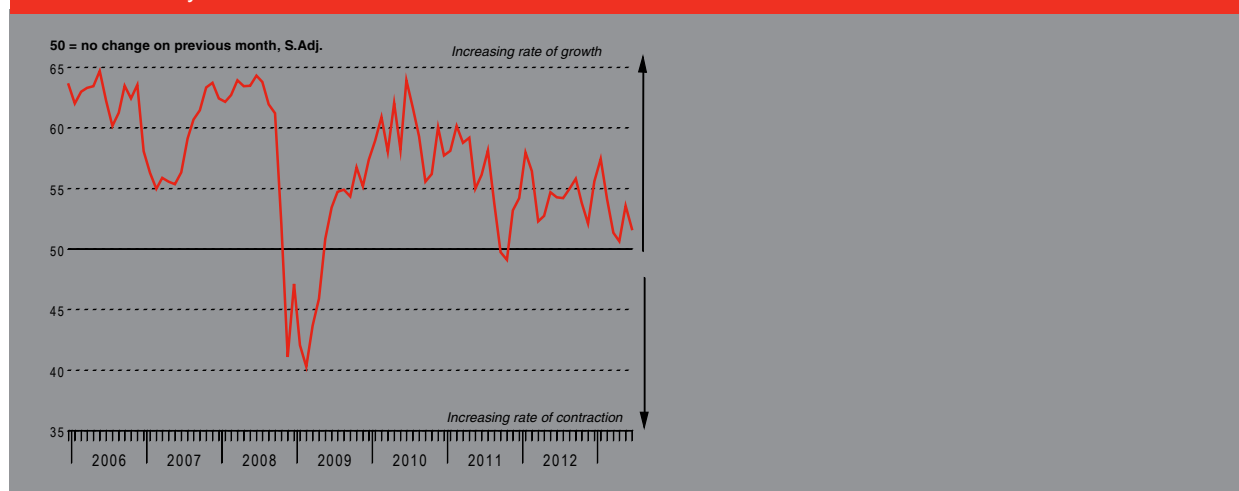
of work increased in the latest month. The rate of accumulation was, however, marginal and joint-weakest in the current seven-month sequence of rises. Surveyed firms indicated that delayed payment from clients resulted in higher volumes of work-in-hand (but not yet completed).

Input prices faced by Indian service providers rose during June, amid evidence of increased staff salaries and raw material costs, with particular mentions of fuel and food. There were also reports of unfavourable exchange rates. The rate of cost inflation accelerated for the first time since February, and was solid overall. From the six broad areas of the service economy that recorded higher input prices, the strongest rise was noted at Hotels & Restaurants.

Part of the additional cost burden was passed on to clients, as output prices rose again in June. The rate of charge inflation was, however, moderate and below the series average. Among the five sub-sectors registering higher tariffs, the quickest rise was signalled at Renting & Business Activities.

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.

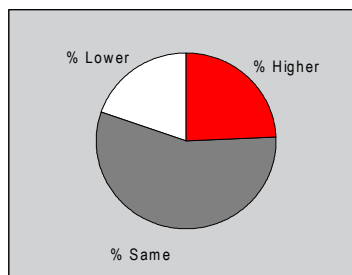
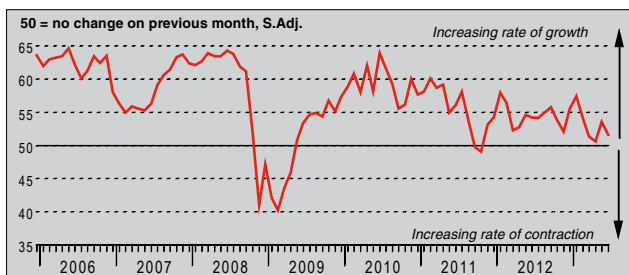
**Business Activity Index**



The survey uses a methodology identical to the HSBC India Manufacturing PMI™. The survey uses a panel of regularly participating companies to monitor trends in business conditions in the private sector services economy. The panel has been carefully selected to accurately replicate the true structure of the Indian services economy. Purchasing Managers' Index™ and PMI™ are trade marks of Markit Economics Limited, HSBC use the above marks under licence. Markit and the Markit logo are registered trade marks of Markit Group Limited.

### Business Activity Index

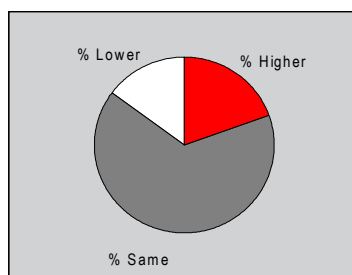
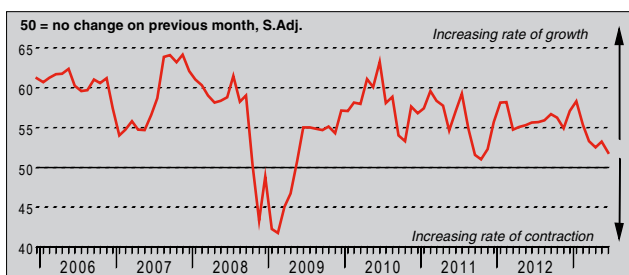
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



Business activity in the Indian service sector rose for the twentieth consecutive month in June. The rate of expansion, however, eased from May's three-month high and was modest overall. Panellists indicated that output growth slowed as a reflection of a weaker trend in new business intakes and tough economic conditions. Underlying business activity increased in three of the six monitored categories, namely Post & Telecommunication, Financial Intermediaries and 'Other Services'.

### New Business Index

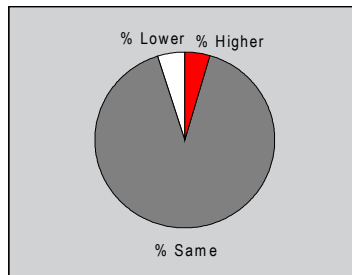
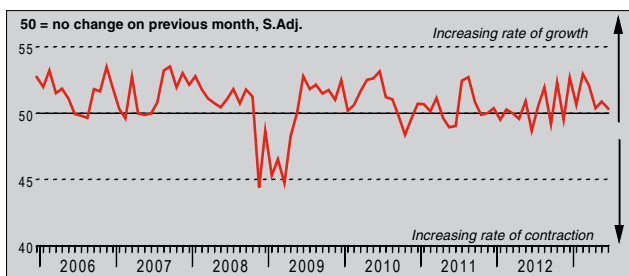
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



June data highlighted a further rise in new business placed at Indian services companies. That said, the rate of expansion was modest and the weakest since October 2011. Surveyed firms indicated that demand was maintained, but linked weaker gains in new orders to an increasingly fragile economy, adverse weather and competitive pressures. The strongest growth in new work intakes was registered at Post & Telecommunication, followed by 'Other Services', Financial Intermediaries and Renting & Business Activities respectively.

### Outstanding Business Index

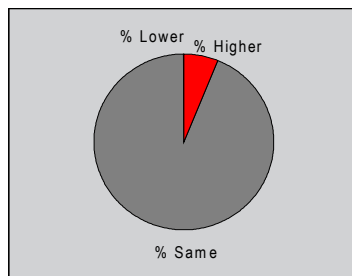
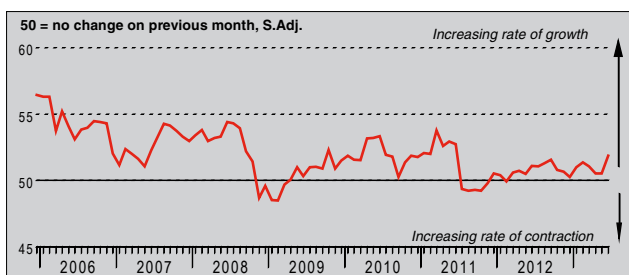
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



Service providers in India indicated that backlogs of work increased in June. The overall rate of accumulation was, however, marginal and the joint-weakest in the current seven-month period of growth. Anecdotal evidence suggested that delayed payments from clients was a factor behind the latest rise in unfinished business levels. Backlog accumulation was recorded in the Hotels & Restaurants, Financial Intermediaries and 'Other Services' sectors. Conversely, marginal decreases were registered elsewhere.

### Employment Index

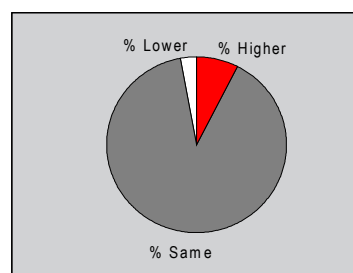
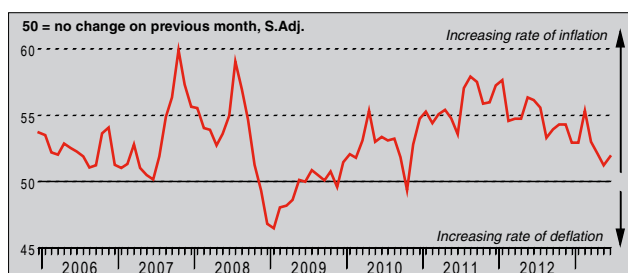
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



Continuing the trend that started in March 2012, payroll numbers in the Indian service sector rose in June. Despite being modest, the pace of job creation accelerated to the fastest in that sequence. Furthermore, the seasonally adjusted Employment Index posted in line with the long-run series average. Sustained new business growth was often reported by those companies that signalled increased workforce numbers. From all six monitored sub-sectors, five recorded higher staffing levels, the only exception being Transport & Storage.

## Prices Charged Index

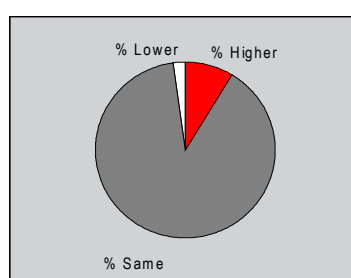
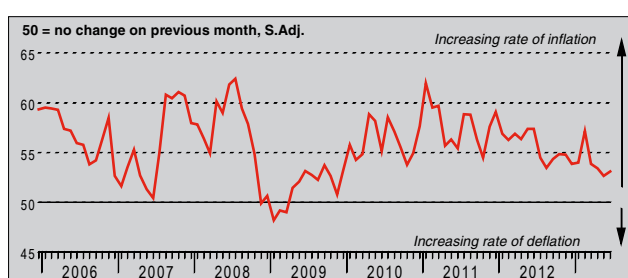
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Average tariffs set by services firms in India rose during June. The Prices Charged Index adjusted for seasonal influences posted above the no-change mark of 50.0 for the thirty-second month running, but was below the long-run series trend. Furthermore, the index was consistent with a moderate increase overall. Evidence from panel members suggested that higher input and transport costs both fed through to the latest rise in output prices.

## Input Prices Index

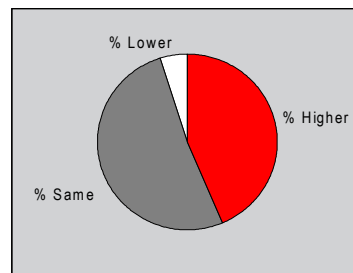
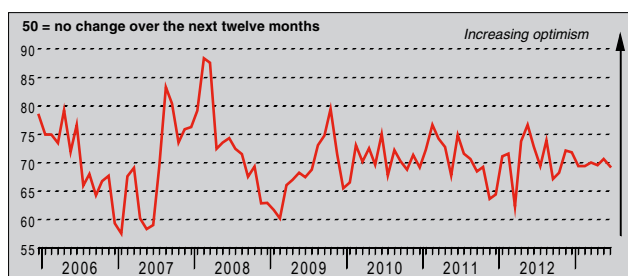
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



Average cost burdens in the Indian service sector increased solidly in June and at a faster rate than seen one month previously. All six monitored services categories signalled higher input prices, with the rate of cost inflation the strongest in the Hotels & Restaurants sector. Increased labour and raw material costs (in particular fuel and food) were often reported by those panellists that signalled higher prices paid. There were also some mentions of unfavourable exchange rates.

## Business Expectations Index

Q. In twelve months' time, do you expect overall activity at your business unit to be higher, the same or lower than now?



Service providers are optimistic about the prospects for business activity in 12 months' time. The degree of positive sentiment remained strong, but the Business Expectations Index fell to the lowest level in eight months. Companies have been upbeat about output growth in each month since the survey started in December 2005. Panellists expect increased marketing and forecasts of stronger demand to lead to higher activity in the year ahead.

## Notes on the Data and Method of Presentation

The India Services *PMI™* covers transport & communication, financial intermediation, business services, personal services, computing & IT and hotels & restaurants.

Each response received is weighted each month according to the size of the company to which the questionnaire refers and the contribution to total service sector output accounted for by the sub-sector to which that company belongs. This therefore ensures that replies from larger companies have a greater impact on the final index numbers than replies from small companies.

The results are presented by question asked, showing the percentage of respondents reporting an improvement, deterioration or no change on the previous month. From these percentages an index is derived such that a level of 50.0 signals no change on the previous month. Above 50.0 signals an increase (or improvement), below 50.0 a decrease (or deterioration). The greater the divergence from 50.0, the greater the rate of change signalled.

The indexes are calculated by assigning weights to the percentages: the percentage of respondents reporting an "improvement/increase" are given a weight of 1.0, the percentage reporting "no change" are given a weight of 0.5 and the percentage reporting a "deterioration/decrease" are given a weight of 0.0. Thus, if 100% of the survey panel report an "increase", the index would read 100. If 100% reported "no change" the index would read 50 (100 x 0.5), and so on. 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.

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