

## HSBC India Services PMI™ (with Composite PMI data)

### Private sector output contracts for first time in over four years

#### Summary

July data highlighted the first decline in business activity across the Indian private sector in over four years. Manufacturers and service providers both recorded lower output levels, amid evidence of falling new business and a difficult economic climate. At 48.4 in July, down from 50.9 in June, the HSBC India Composite Output Index was indicative of a moderate contraction overall.

Down from 51.7 in June to 47.9 in July, the seasonally adjusted HSBC Services Business Activity Index registered below the 50.0 no-change mark for the first time since October 2011 and was consistent with a moderate contraction. Sector data indicated that the Transport & Storage and Renting & Business Activities sub-sectors were the main drivers of the overall decline.

New orders received by private sector companies in India fell in July, amid reports of an increasingly fragile economy. Despite being moderate, the latest contraction was the first recorded since April 2009. Manufacturing and services companies both signalled lower volumes of incoming new work, with the rate of contraction faster in services.

Nevertheless, backlogs of work across the Indian private sector rose in July. Manufacturing companies indicated that unfinished business levels were accumulated as a result of powercuts and raw material shortages at suppliers, while service providers commented on delayed payment from clients.

Staffing levels increased for the seventeenth consecutive month in July, with companies citing increased business requirements. Employment growth was broad-based with manufacturing and services firms both signalling job creation. The overall rate of increase was, however, modest.

Reflective of higher prices paid for inputs, private sector firms in India raised their tariffs again in July. Whereas the rate of charge inflation in the manufacturing sector accelerated to the quickest since February, prices charged by service providers rose at the slowest pace in the current 33-month inflationary sequence. Input cost inflation across the private sector economy picked up to the sharpest in five months. Manufacturing firms recorded the strongest rise in purchase prices for ten months, but in the service sector, input cost inflation eased to the slowest in over three-and-a-half years. Where input costs rose, service providers reported higher prices paid for fuel, labour and raw materials.

Service providers continued to signal an optimistic outlook with regards to activity in 12 months' time, albeit to the lowest degree in ten months. Panel members suggested that price discounting will be offered in an attempt to attract new business and that marketing is projected to increase. A number of firms were, however, concerned about current economic conditions and the underlying health of the Indian economy.

#### Comment

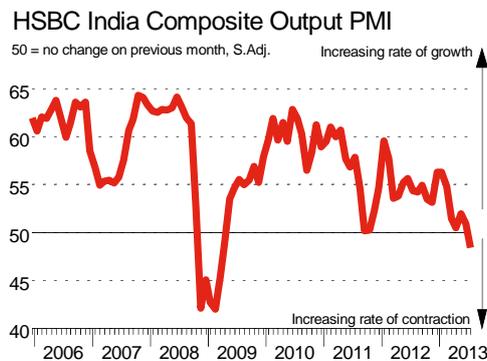
Commenting on the India Services PMI™ survey, Leif Eskesen, Chief Economist for India & ASEAN at HSBC said:

*"Activity in the service sector contracted in July led by a drop in new business, which also led to a decline in optimism among the surveyed companies. Meanwhile, inflation gauges softened on the back of weaker demand and tough competition. While the RBI has to cater to the currency at the moment, it will eventually need to cater more to growth as economic activity continues to soften."*

#### Key points

- Business activity across the private sector falls moderately
- New work placed at private sector firms contracts for first time since April 2009
- Inflationary pressures ease in service sector

#### Historical Overview



Sources: Markit, HSBC.

Further information on service sub-sectors is available in the main report at: [www.hsbc.com](http://www.hsbc.com)

**For further information, please contact:**

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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](mailto:economics@markit.com).

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