

India

New PMI survey showed fastest expansion of Indian service sector output for nearly a year

Recovery of Indian service sector output gained pace in August

The new Services PMI for India, compiled by Markit on behalf of HSBC and published for the first time on the 3rd September, pointed to another expansion of Indian service sector activity in August. Moreover, the rate of growth accelerated to the fastest in eleven months.

Driving the latest rise in activity was a similarly marked gain in new business, which largely reflected better economic conditions, although panellists also mentioned successful promotional campaigns and strong reputations for quality. Improved demand enabled service providers to pass on part of their higher cost burdens to customers, despite strong competition. Meanwhile, greater workloads put pressure on firms' operating capacity, resulting in another round of job creation. However, employment, output and new order growth remained weak in comparison to those seen prior to Q42008.

PMI data indicated that, in terms of length and severity, the respective downturns in Indian service and manufacturing activity were broadly similar. While service sector output recovered only marginally in Q2, manufacturing production rebounded strongly, carried by robust domestic demand (as shown in Chart 1). Since then, the expansion in service sector activity has gone from strength to strength, whereas, manufacturing output growth has slowed slightly over the past three months.

Importance of Indian service sector coverage by PMI data

Accounting for 53.4% of total Indian GDP in 2008, up from 50% in 2000, India's services economy is becoming an increasingly important sector, both within its own country and worldwide. Between 1995 and 2005, India had the fifth-fastest growing tertiary sector in the world and, in 2003, it employed approximately 28% of the country's labour force. In comparison, India's

Chart 1: HSBC India Manufacturing & Services PMIs

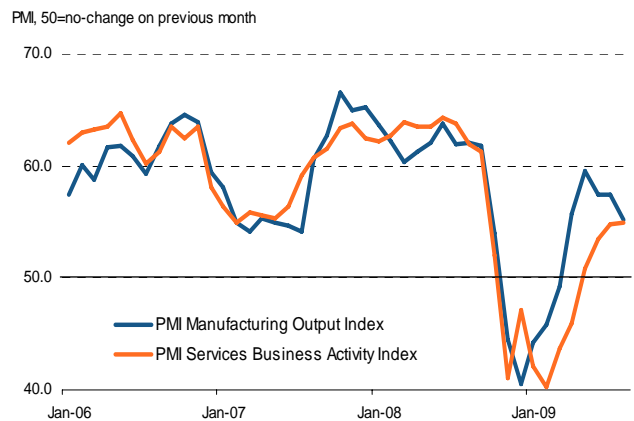
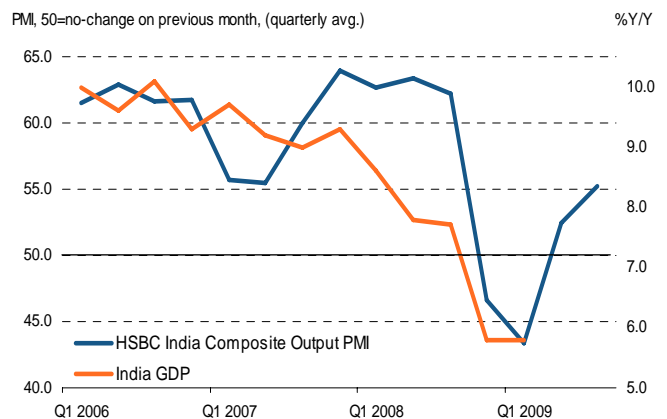


Chart 2: HSBC India Composite PMI vs. GDP



*Q32009 PMI data includes figures for July & August only.

manufacturing industry contributed only 15.9% to GDP last year.

PMI accurately tracks trends in official GDP

The HSBC India Composite Output PMI, constructed by weighting together the newly launched HSBC India Services Business Activity Index and the HSBC India Manufacturing Output Index, indicated a strong rate of overall output growth in August. That said, the index registered a slightly lower reading than in July.

When averaged to create a quarterly series (see Chart 2), the Composite PMI has a correlation of 0.732 with official GDP data, which signals a strong, positive relationship. PMI and GDP figures for Q4 2008 and Q1 2009 were far weaker than those recorded over the same quarters in recent years. However, the Q2 2009 PMI reading pointed to a rebound in total output growth.

PMI data for Q3 so far indicates that the recovery in GDP growth continued to gain momentum.

The next HSBC India Manufacturing PMI is released on 1st October, followed by the HSBC India Services & Composite PMI on 5th October. To find out how to receive data from the surveys, or to obtain copies of the reports please contact economics@markit.com

Gemma Wallace

Economist

Markit

Tel: +44 1491 416 075

Email: gemma.wallace@markit.com

For further information, please visit www.markit.com

The intellectual property rights to this report provided herein is owned by Markit Group Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Markit is a trademark owned by the Markit group.