

News Release

Embargoed until 1030 IST (0500 UTC) 5 June 2024

HSBC India Services PMI[®]

Service sector growth cools in May, despite series-record upturn in exports

Key findings

Weakest rises in new business and output for five months

Exports up to greatest extent in series history

Price pressures tick higher

May data showed that robust increases in new business intakes continued to underpin output growth across India's service economy, according to the HSBC PMI[®]. Rates of expansion eased to the slowest in the calendar year-to-date, however, amid fierce competition, price pressures and a severe heatwave. Both input costs and output charges rose to greater extents.

Concurrently, new orders from international markets expanded at the steepest pace since the inception of this series nearly ten years ago. Another positive takeaway was a rebound in business confidence to its strongest in eight months.

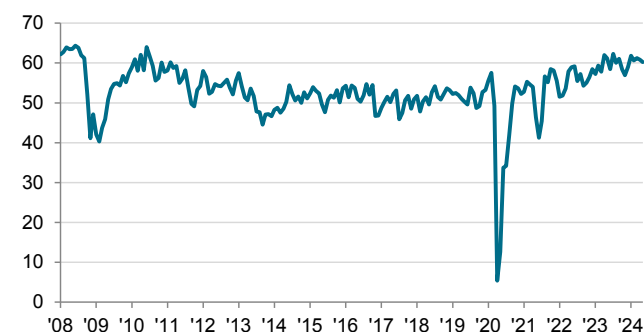
The seasonally adjusted HSBC India Services Business Activity Index remained comfortably above the neutral mark of 50.0 in May, highlighting a sharp upturn in output. That said, the headline figure fell from 60.8 in April to 60.2, its lowest mark since last December. Growth was reportedly supported by rising sales, productivity gains and demand strength. The upturn was somewhat hampered by competitive and price pressures.

Like for output, new orders rose at a substantial pace that was nonetheless the slowest in the calendar year-to-date. Underpinning the rise were favourable economic and demand conditions, besides successful advertising. At the same time, fierce competition and extreme heat across the country dampened growth.

One area that improved substantially in May was new export orders, with growth climbing to the fastest seen since the inception of the series in September 2014. Survey participants noted strong growth of demand from Asia, Africa, Europe, the Middle East and the US.

HSBC India Services PMI Business Activity Index

sa, >50 = growth since previous month



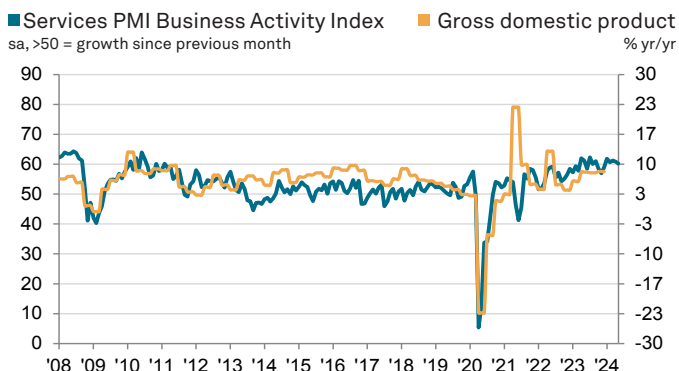
Sources: HSBC, S&P Global PMI.

Data were collected 9-29 May 2024.

Comment

Maitreyi Das, Global Economist at HSBC, said:

“India’s service activity rose at a slightly softer pace in May, with domestic new orders easing slightly, but remaining robust, implying strong demand conditions and successful advertising. New export orders surged at a record pace, with broad-based demand from across the globe. On the price front, cost pressures ticked up in May led by higher raw material and labour costs. Firms were only able to transfer a part of the price rise to customers. Good news is the level of optimism about the year-ahead outlook rose at the fastest pace in eight months, leading service firms to increase their staffing levels. Overall composite output rose at a slightly slower pace, led by slower rises in both factory production and service activity.”



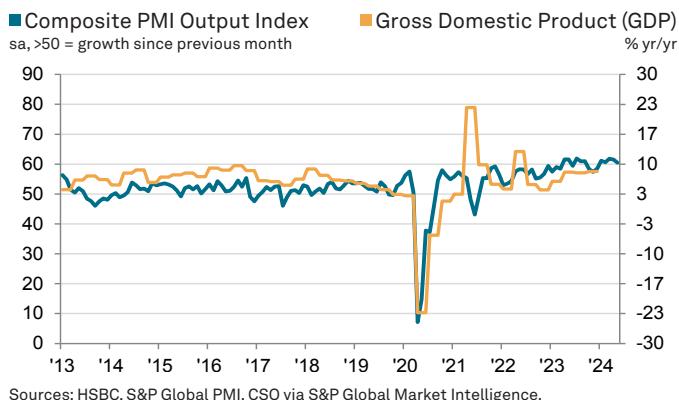
Meanwhile, cost pressures intensified in May. According to panel members, outlays on materials and labour rose. With regards to the former, there were mentions of higher prices for meat, packaging and vegetables.

While some companies suggested that additional labour costs stemmed from overtime payments and upward salary revisions due to demand strength and productivity gains, several firms indicated having taken on extra staff.

Not only did employment rise markedly, but also to the greatest extent since August 2022. Companies reported having hired junior and mid-level workers in May.

One factor that underpinned recruitment was a pick-up in capacity pressures among service providers. Outstanding business volumes rose at the quickest pace in nearly three-and-a-half years.

Expectations that marketing efforts will bear fruit, coupled with improved customer engagement, demand strength and buoyant economic conditions boosted business confidence among service providers. The overall level of positive sentiment climbed to an eight-month high.



HSBC India Composite PMI®

Private sector growth recedes to five-month low in May

Indian private sector output rose sharply halfway through the first quarter, despite another loss of growth momentum. The HSBC India Composite Output Index* slipped from 61.5 in April to 60.5 in May, highlighting the slowest rate of expansion since last December. There were softer increases in both factory production and services activity.

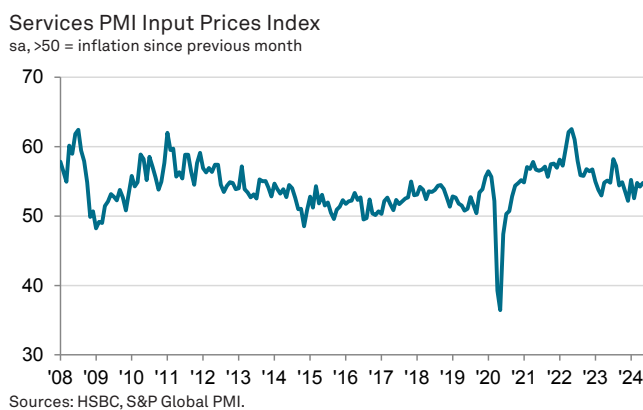
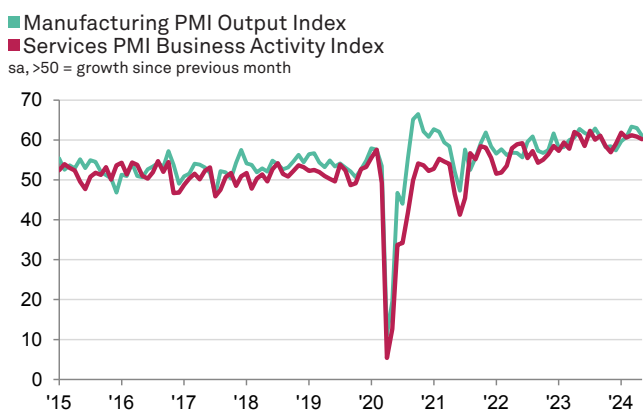
Aggregate sales rose at the weakest pace in the calendar year-to-date, albeit one that was historically sharp. Goods producers outperformed service providers, though growth softened in both cases.

Prices charged for Indian goods and services increased to a greater extent in May, as rates of inflation gained speed at manufacturers and services firms.

Underpinning the uptick in charge inflation was a quicker rise in input costs. At the composite level, input prices rose at the fastest pace in nine months.

Business sentiment improved at manufacturing firms and their services counterparts. Collectively, companies were at their most optimistic since September 2023.

*Composite PMI indices are weighted averages of comparable manufacturing and services PMI indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data.



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Survey methodology

The HSBC India Services PMI® is compiled by S&P Global from responses to questionnaires sent to a panel of around 400 service sector companies. The sectors covered include consumer (excluding retail), transport, information, communication, finance, insurance, real estate and business services. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP. Data collection began in December 2005.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Services Business Activity Index. This is a diffusion index calculated from a question that asks for changes in the volume of business activity compared with one month previously. The Services Business Activity Index is comparable to the Manufacturing Output Index. It may be referred to as the 'Services PMI' but is not comparable with the headline manufacturing PMI figure.

The Composite Output Index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index. The weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The Composite Output Index may be referred to as the 'Composite PMI' but is not comparable with the headline manufacturing PMI figure.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

For further information on the PMI survey methodology, please contact economics@spglobal.com.

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