HSBC India Services PMI

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Economics

Ending the year on a high note

India

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- Services business activity rose at a faster pace in December, well above the long-term-average growth momentum
- The input price index fell, but in the face of strong demand, service providers raised output prices, leading to three-year high corporate margins
- The India Composite PMI shows that overall activity rose in December, driven more by service providers than manufacturers

HSBC India Services PMI index shows that business activity expanded at a faster rate of 59.0 in December, after having softened to a one-year low of 56.9 in November (see table 1 and chart 1). At these levels, the growth momentum in India's services sector is higher than the long-term-average of 53.8. Three points stood out:

- **Domestic demand for services is robust.** New business rose sharply, and was primarily driven by domestic demand, as new export business, while still-expanding, slowed to an 8-month low growth momentum (see chart 2).
- **Corporate margins for service providers are rising**. Input prices rose at a slower pace than a month ago, continuing a softening trend which began in mid-2023. However, prices charged rose at a faster pace in December, pointing to improved margins for service providers. In fact, on this measure, corporate profitability trended at a 3-year high in December.
- **Future expectations for the service sector are buoyant.** Alongside the rise in current business activity, the future activity index, too, ticked higher in December, to 62.2, versus 60.7 in November.

Combining the Services PMI Index with the Manufacturing PMI index, which was released earlier in the week, provides a *composite* picture of the state of the economy. Overall output, new orders and future expectations rose. The overall rise in input prices softened, but that of output prices rose, leading to better margins.

Several similarities and differences between manufacturers and service providers are worth noting. In terms of similarities, both manufacturers and service providers are seeing input costs fall. But in the December reading, service providers saw higher demand than manufacturers, in terms of rising pace of new orders (see chart 3). This, arguably, allowed them to raise prices, even as manufacturers lowered the rise in output prices. As a result, **corporate profitability rose faster for service providers**, and has now almost caught up with that for manufacturers (see chart 4).

We forecast GDP to grow by 6% y-o-y in FY25, versus 6.9% in FY24. Much of this fall is likely to be led by statistical reasons, for instance normalising deflators and base effects. As such, actual growth on the ground may not soften by as much. Falling oil prices and the structural rise in credit growth have been supportive of India's GDP growth, while weak agricultural output has been a drag. Where these variables land will likely determine the shape and size of the economy over the next year.

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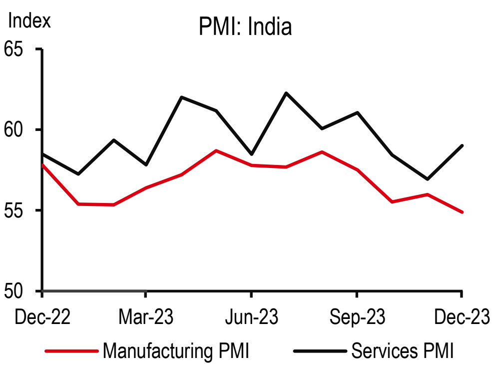
Table 1: Summary of HSBC India Services PMI (seasonally adjusted)

	Oct-23	Nov-23	Dec-23
Business Activity		56.9	59.0
New Business			
New Export Business			
Outstanding Business			
Employment			
Input Prices			
Prices Charged			
Future Activity Index			
expanding and stronger	expanding but w eaker	contracting but improving	contracting and w eaker

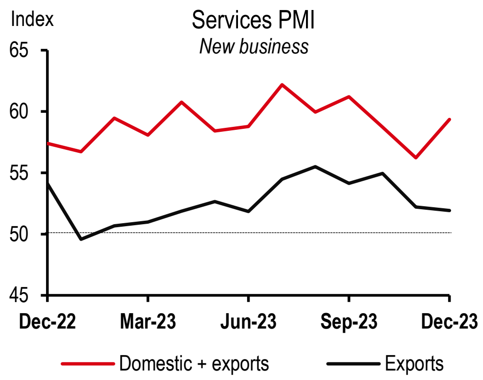
Source: S&P Global, HSBC

Chart 1: Services PMI ended the year on a high note



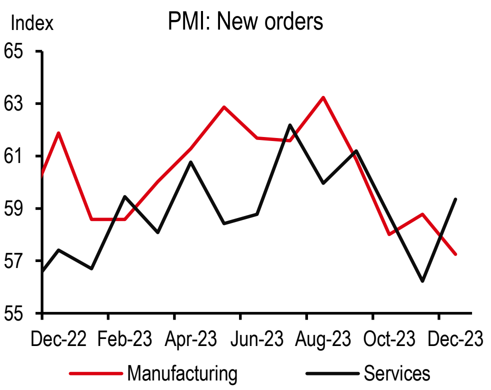
Source: S&P Global, HSBC

Chart 2: Domestic demand for services is robust



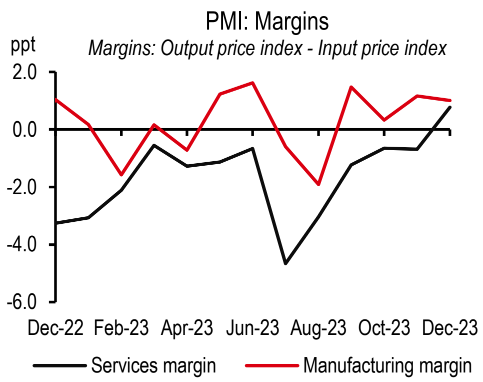
Source: S&P Global, HSBC

Chart 3: In December, service providers saw higher demand momentum than manufacturers



Source: S&P Global, HSBC

Chart 4: Corporate profitability for service providers has almost caught up with that of manufacturers



Source: S&P Global, HSBC

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