Sustained growth of new business supports output expansion

Key findings

- New work intakes rise solidly
- Marked, albeit softer, upturn in business activity
- Input cost inflation remains elevated

March data pointed to further increases in new business and output at Indian services firms, as companies benefited from strong demand conditions and the elections. However, despite being marked, rates of expansion softened in both cases. Growth was reportedly curbed by the coronavirus disease 2019 (COVID-19) pandemic and low footfall.

Survey participants reported a sharp increase in input costs, the second-fastest since February 2013. Meanwhile, selling prices rose only fractionally as the vast majority of companies left their fees unchanged due to competitive pressures.

At 54.6 in March, the seasonally adjusted India Services Business Activity Index indicated growth for the sixth consecutive month. Falling from 55.3 in February, the latest reading was consistent with a slower but still marked pace of expansion.

Companies that noted higher output linked the upturn to the elections, rising sales and improved demand. Meanwhile, some firms mentioned that low footfall, consumer uncertainty and the COVID-19 crisis led to a reduction in activity at their units.

New orders rose in March, stretching the current sequence of expansion to six months. Although easing from February, the pace of increase was solid and surpassed the long-run series average. The upturn was associated with the elections, higher demand and successful marketing. Growth was curbed by the detrimental impact of the COVID-19 pandemic on footfall.

External demand for Indian services continued to worsen, with new orders from abroad decreasing for the thirteenth straight month. That said, the rate of contraction eased to the slowest in this sequence.

Services companies reported higher expenses in March. The rate of input cost inflation was sharp and outpaced its long-run average, despite slowing from February’s eight-year high.

A few firms lifted their selling prices amid efforts to protect margins given ongoing increases in input costs. At the same time, the vast majority of companies left their fees unchanged due to competitive pressures. As a result, there was only a fractional rise in average output charges.

Elsewhere, services companies posted another decline in payroll numbers during March. The fall was the fourth in consecutive months, though slight.

Job shedding occurred in spite of a further increase in outstanding business at services firms. Backlogs of work rose for the tenth month running, but at the weakest pace since last June.

Looking ahead, companies expect business activity to increase over the course of the coming 12 months. Rising client enquiries and hopes for greater vaccine availability were the key reasons underpinning optimism in March. The overall level of confidence was unchanged from February.

Sub-sector data pointed to growth of output and sales in Consumer Services, Finance & Insurance and Transport & Storage. Information & Communication and Real Estate & Business Services propped up the rankings, posting declines in new work and business activity.

continued...
IHS Markit India Composite PMI®

Private sector activity rises for seventh straight month in March

Growth of Indian private sector output eased in March, but remained marked relative to the series trend. The Composite PMI Output Index was at 56.0, down from 57.3 in February, signalling expansion for the seventh month running. Softer increases were recorded in the manufacturing and service sectors.

New business received by private sector companies rose for the seventh consecutive month in March. Despite softening from February, the pace of expansion was solid. Growth was led by goods producers, although rates of increase eased in both categories.

Aggregate employment decreased further, marking a 13-month sequence of job shedding. Moderate declines were evident at manufacturing firms and their services counterparts.

The rate of input cost inflation across the private sector was only a tick lower than February’s 88-month high, indicating another sharp increase in firms’ expenses.

Despite this, selling prices at the composite level rose only marginally. The increase was the third in consecutive months and much weaker than the long-run series average. Charge inflation was more pronounced at goods producers.

*Composite indices are weighted averages of comparable manufacturing and services indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The India Composite Output Index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index.

Comment

Commenting on the latest survey results, Pollyanna De Lima, Economics Associate Director at IHS Markit, said:

“While the March results showed that service sector growth in India softened, rates of expansion for output and new business remained strong relative to the survey trend. The elections supported the uptick in demand, but the COVID-19 pandemic and reduced footfall restricted the upturn.

“The escalation of the pandemic and the reinstatement of restrictions could cause a notable slowdown in growth during April. Service providers hope for an improvement in vaccine availability, which would curb the spread of the disease and support the economy. Optimism towards the year-ahead outlook for business activity was sustained, but the overall level of confidence was unchanged from February and remained below its long-run average.

“Transport & Storage was the key source of strength during March, with the sector recording sharp and accelerated increases in sales and business activity that were the strongest of all monitored categories. Consumer Services and Finance & Insurance remained in expansion mode, while contractions were evident in Information & Communication and Real Estate and Business Services.”
IHS Markit India Services PMI®

Survey methodology
The IHS Markit India Services PMI® is compiled by IHS Markit 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. 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@ihsmarkit.com.

Survey dates and history
Data were collected 12-29 March 2021.

Survey data were first collected December 2005.

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