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# IHS Markit India Services PMI®

Including IHS Markit India Composite PMI®

## Services activity and new business expand at slower rates in December

### Key findings

Rates of growth in sales and output ease to three-month lows

Employment returns to contraction territory

Business optimism weakens

Data were collected 04-21 December 2020.

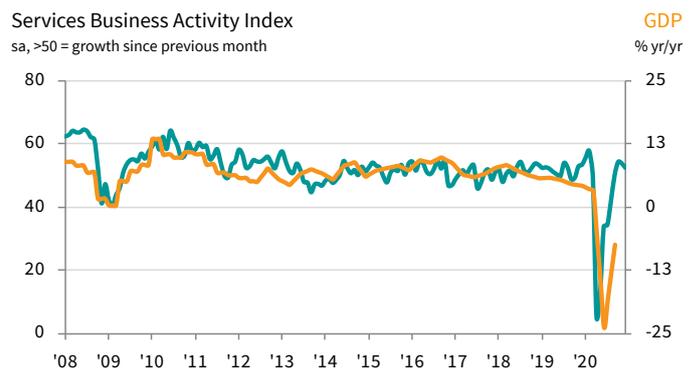
PMI data showed that the Indian service sector continued to recover from the coronavirus disease 2019 (COVID-19) induced contractions seen through most of 2020, with output and new business rising for the third straight month in December. However, in both cases the rates of growth softened to the weakest over this period. Staff hiring came to a halt due to liquidity concerns, labour shortages and subdued demand, while business optimism faded.

Price data showed a pick-up in input cost inflation, the strongest since February, but a renewed fall in selling prices as some firms sought to beat competition and secure new work.

Posting 52.3 in December, the seasonally adjusted India Services Business Activity Index highlighted output growth for the third month in a row. However, falling from 53.7 in November, the latest figure pointed to the slowest pace of expansion over the aforementioned sequence. Companies indicated that growth was supported by the securing of new work, though curbed by competitive pressures and the COVID-19 pandemic.

Services firms suggested that marketing efforts bore fruit, underpinning a further increase in new business during December. However, growth eased to the slowest in the current three-month sequence of expansion due to the negative impact of COVID-19 on demand.

Global COVID-19 restrictions, particularly travel bans, reportedly restricted international demand for Indian services at the end of 2020. New export business decreased sharply, but at the slowest pace since March.



Sources: IHS Markit, CSO.

Job shedding was resumed in December, with some firms mentioning that liquidity problems, labour shortages and subdued demand caused the latest fall in employment. The decline in payroll numbers was the ninth in ten months, but marginal overall.

Although companies maintained an upbeat view that output will increase in 2021, the overall level of positive sentiment fell from November. Anecdotal evidence suggested that optimism was curbed by uncertainty surrounding the COVID-19 pandemic, rupee depreciation and inflationary pressures.

Input costs increased to the greatest extent since February. Survey participants reported higher prices for a number of items, including cleaning products and fuel.

Despite the intensification of cost inflationary pressures, December data showed a renewed reduction in prices charged for the provision of services in India. Those companies that offered discounts mentioned attempts to beat competition and stimulate demand.

Elsewhere, there was another increase in outstanding business at service providers. The rise in backlogs was solid, though the weakest since June.

Sub-sector data highlighted Transport & Storage, Consumer Services and Finance & Insurance as the brightest spots, where sales and output expanded in December. Contractions were noted in Information & Communication and Real Estate & Business Services.

*continued...*

## IHS Markit India Composite PMI®

### Output growth loses momentum in manufacturing and service sectors

Although private sector activity continued to increase at the end of the year, the upturn eased to a three-month low. The Composite\* PMI Output Index fell from 56.3 in November to 54.9 in December, with underlying data showing slower rates of expansion at both manufacturers and service providers.

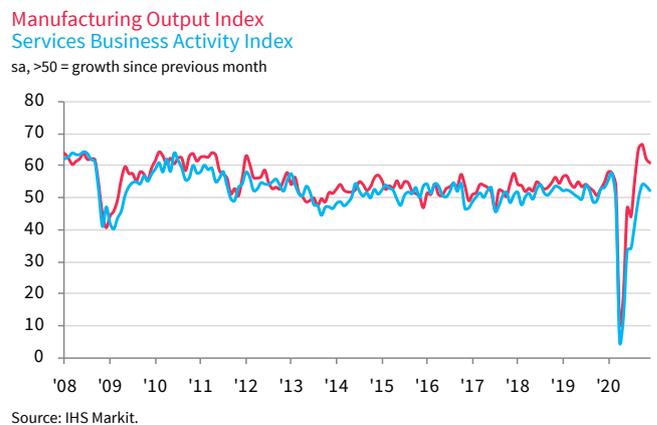
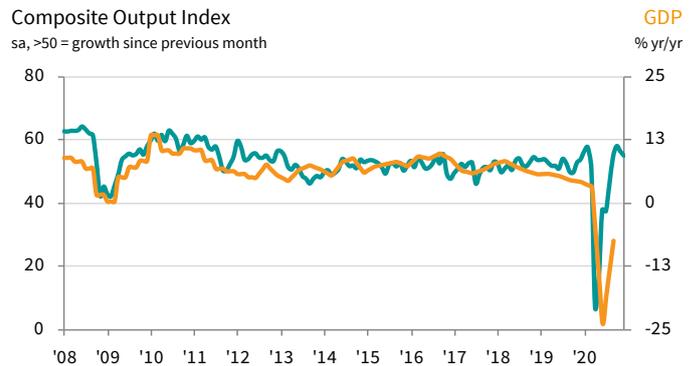
Similarly, aggregate new orders rose for the fourth month running but at the weakest rate since September. Manufacturers and services companies saw weaker expansions.

Private sector employment declined in December, marking a ten-month sequence of contraction. The rate of reduction was slight, but quickened from November.

Companies in the private sector saw the strongest increase in input costs in nearly six-and-a-half years, with rates of inflation quickening at goods producers and services firms.

However, overall output charges were broadly unchanged as discounts at service providers offset increases among 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:

*"Although the news that the service sector remained in expansion mode during December is welcome, the fact that growth lost momentum yet again shouldn't be disregarded. The slowdown is particularly notable given the size of the sector, the fact that the recovery only began in October and that monthly rates of increase in new business and output were moderate relative to those seen in the manufacturing industry.*

*"A spike in COVID-19 cases was reported as a key factor restricting growth of new work intakes among service providers, which in turn curbed the rise in output and led to increased business uncertainty about the outlook.*

*"Given the damaging impact of the pandemic on the service economy, some companies are facing financial difficulties, which is preventing staff hiring. December saw the ninth round of job shedding in ten months.*

*"To add to the testing conditions services firms are facing, their expenses continued to rise while pricing power diminished. Input prices rose at the sharpest rate in ten months during December, but firms absorbed the increase in cost burdens amid efforts to stimulate demand.*

*"It is clear that the early part of 2021 will continue to be challenging, but we're looking at a sustainable recovery and some return to normality once COVID-19 vaccines become available."*

Services Employment Index

sa, >50 = growth since previous month



Source: IHS Markit.

Services Prices Charged Index

sa, >50 = inflation since previous month



Source: IHS Markit.

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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 services 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](mailto:economics@ihsmarkit.com).

Survey dates and history

Data were collected 04-21 December 2020.

Survey data were first collected December 2005.

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Purchasing Managers' Index® (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends.

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