The recovery of the Indian service sector was extended to October, with companies indicating that a notable pick-up in new business led to the fastest expansion in output in over a decade. More jobs were created as result, though business confidence remained subdued due to growing concerns surrounding price pressures. With input costs again rising sharply, companies lifted their fees at the fastest pace in close to four-and-a-half years.

Rising from 55.2 in September to 58.4 in October, the seasonally adjusted India Services Business Activity Index signalled the strongest rate of growth in ten-and-a-half years. Moreover, the current sequence of expansion was extended to three months. According to panel members, ongoing improvements in demand boosted growth of sales and subsequently output.

Indeed, new work intakes increased at a sharp and accelerated rate, the strongest since July 2011. Moreover, the latest upturn was the third in successive months. Survey participants commonly linked sales growth to better underlying demand and successful marketing.

Indian firms were able to secure a healthy intake of new work despite charging more for their services. Output prices rose at a solid rate that was the strongest since July 2017. Anecdotal evidence suggested that additional cost burdens were passed on to clients.

October data highlighted a sixteenth successive monthly increase in input costs at Indian services firms. The rate of inflation was at a six-month high and outpaced its long-run average. Monitored companies cited higher fuel, material, retail, staff and transport costs.

Services companies continued to hire additional workers in October. Although moderate, the pace of job creation quickened from September to the strongest since February 2020.

Subsequently, companies were able to clear their backlogs of work. Outstanding business decreased for the third month in a row during October, albeit only slightly.

Elsewhere, the latest data continued to point to weak international demand for Indian services. New export business decreased in October, a trend that has been recorded since the COVID-19 outbreak. Despite being solid, the rate of contraction was the weakest since March.

Although service providers were confident that business activity would increase over the course of the coming 12 months, the overall level of sentiment was little-changed from September and well below its long-run average. Some firms expect sales and output to increase as the pandemic recedes and marketing efforts bear fruit, but others were concerned about the impact of inflationary pressures on the recovery.

continued...
Private sector output in India increased at a sharper rate in October as growth quickened among both manufacturers and service providers. The Composite* PMI Output Index rose from 55.3 in September to 58.7, signalling the strongest monthly expansion since January 2012.

The upturn in business activity was supported by a substantial rise in new work intakes. Aggregate sales increased at a sharp rate that was the quickest since early-2012. The acceleration in growth was broad-based across the manufacturing and service sectors.

October data pointed to a second successive monthly increase in private sector employment, but the rate of expansion was only slight as growth among service providers was partly offset by job shedding at goods producers.

Price pressures intensified in October, with the aggregate rate of input cost inflation climbing to the joint-highest in over nine years. The rate of charge inflation was moderate in comparison, but nevertheless the fastest since mid-2017.

Business sentiment among companies operating in the Indian private sector strengthened in October, owing to a notable rebound in optimism at goods producers.

Finally, new export orders at private sector firms stabilised in October as growth in the manufacturing industry counterbalanced a contraction among service providers.

*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:

“A substantial rise in prices charged for the provision of services in India had no detrimental impact on demand, as companies signalled the strongest monthly expansion in new business in over a decade.

“Hence, the recovery of the sector entered its third straight month, with firms scaling up activity at the fastest pace in ten-and-a-half years and creating more jobs.

“That said, service providers were concerned that persistent inflationary pressures could deter growth in the coming year. Business confidence remained subdued in the context of historical data.

“Companies' expenses rose notably from September, which survey participants mainly linked to higher fuel, material, retail, staff and transportation costs.”
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 12-27 October 2021.
Survey data were first collected December 2005.

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