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IHS Markit India Services PMI®

Including IHS Markit India Composite PMI®

COVID-hit service sector sees sharper declines in sales and output

Key findings

New business and output fall at fastest rates since July 2020

Job shedding accelerates

Business confidence weakens to ten-month low

Data were collected 11-28 June 2021.

June data indicated that services firms endured further losses of new business as the emergence of the pandemic and the reintroduction of containment measures restricted demand. New work intakes and output contracted at the fastest rates since July 2020, which prompted companies to reduce employment again. Business sentiment took another hit, with panellists neutral in their assessments of output forecasts for the year ahead.

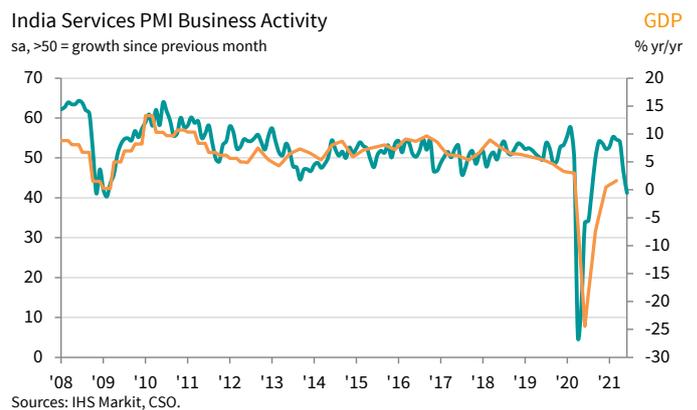
Registering 41.2 in June, the seasonally adjusted India Services Business Activity Index highlighted a further contraction in output. Moreover, falling from 46.4 in May, the latest reading pointed to the fastest rate of reduction since July 2020. Monitored companies commonly indicated that the intensification of the COVID-19 crisis and tight restrictions curbed demand for services.

Subdued demand conditions resulted in a second successive monthly drop in new business received by services firms. The pace of contraction was sharp and the quickest since July 2020.

Business activity and new orders decreased in four out of the five broad areas of the service economy, with the fastest rates of contraction registered in Consumer Services. Transport & Storage was the only segment to post growth.

International demand for Indian services deteriorated further in June, with new export orders falling for the sixteenth consecutive month. The pace of contraction remained sharp, despite easing from May.

In line with a further reduction in new work intakes, companies



lowered payroll numbers midway through 2021. The fall in employment was the seventh in consecutive months and the fastest over this period. The decline in jobs was widespread across the five monitored sub-sectors, and led by Consumer Services.

June data pointed to signs of spare capacity among service providers, as outstanding business decreased for the first time in over a year. That said, the overall rate of backlog depletion was only marginal.

Firms reported that higher transportation and material costs continued to push-up average input prices. The rate of inflation was at a five-month low, but outpaced its long-run average. Finance & Insurance was the only category to record lower input prices.

Services companies continued to share rising cost burdens with clients by lifting their selling prices in June. That said, the overall rate of charge inflation was negligible by historical standards. Increases in output prices were noted in four out of the five monitored categories, with average charges for Information & Communication services unchanged from May.

Services firms were neutral in their expectations for output in the coming 12 months. The overall level of business sentiment was down for the third month in a row in June, reaching its lowest mark since last August. The COVID-19 pandemic was the main factor seen as a threat to the outlook among survey participants.

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IHS Markit India Composite PMI®

Downturn in private sector output quickens in June

Private sector companies in India noted a second successive monthly decline in business activity during June as market conditions remained challenging due to the escalation of the pandemic. Moreover, falling from 48.1 in May to 43.1 in June, the Composite* PMI Output Index signalled the sharpest rate of reduction since July 2020. Factory production decreased for the first time in 11 months and there was a quicker contraction in services activity.

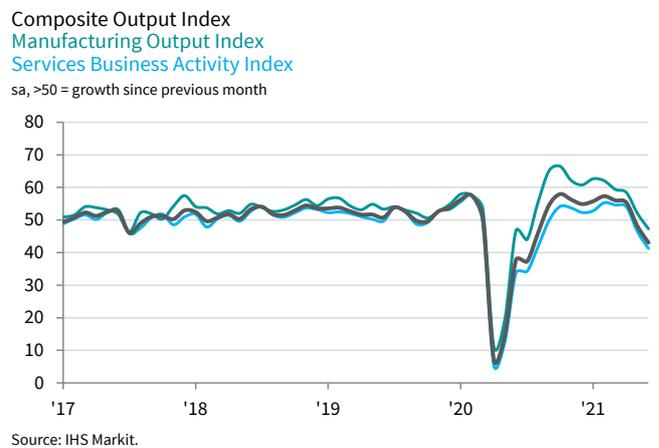
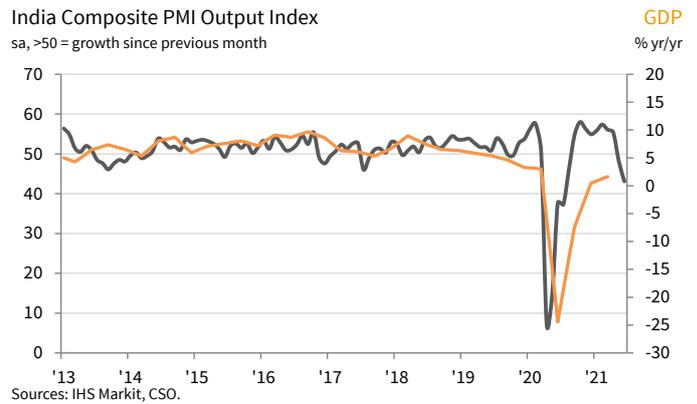
New orders at the composite level also declined for the second month in a row in June. The pace of contraction was sharp and the fastest since July 2020 as a quicker decrease in the service sector was accompanied by a renewed drop at goods producers.

Aggregate employment continued to contract, stretching the current sequence of job shedding to 16 months. The pace of reduction was moderate, although the quickest since October 2020.

The rate of input cost inflation across the private sector was broadly similar to May, with little change seen in both the manufacturing and service economies.

Prices charged for goods and services in India continued to rise marginally in June, with the overall rate of inflation at a three-month low and below its long-run average.

*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:

"Given the current COVID-19 situation in India, it was expected that the service sector would take a hit. PMI data for June showed quicker declines in new business, output and employment that were sharp but much softer than those recorded in the first lockdown.

"Uncertainty about the path of the pandemic restricted business confidence among services firms, who were generally

neutral in their forecasts for output in the year ahead. The overall level of sentiment slipped to a ten-month low.

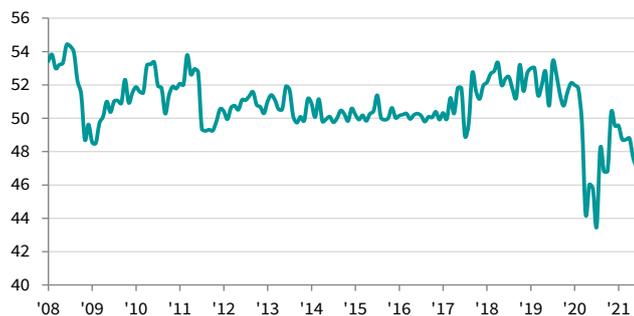
"After losing growth momentum in recent months, the manufacturing industry dipped into contraction territory midway through 2021. As a result, there were faster reductions in private sector sales, output and jobs.

"With India expanding its vaccine options and the government announcing ambitious plans to immunise the entire adult population by the end of the year,

it is hoped that the pandemic can be brought under control and a sustainable economic recovery can begin."

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.

Contact

Pollyanna De Lima
Economics Associate Director
IHS Markit
T: +44 149 146 1075
pollyanna.delima@ihsmarkit.com

Joanna Vickers
Corporate Communications
IHS Markit
T: +44 207 260 2234
joanna.vickers@ihsmarkit.com

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.

Survey dates and history

Data were collected 11-28 June 2021.

Survey data were first collected December 2005.

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