Strongest increase of services activity in over seven years

Key findings

Output rises at sharp and quicker pace

Growth of new work similar to January’s seven-year high

Business sentiment strengthens

February data pointed to another improvement in the rate of growth of services activity, as companies reacted positively to strong gains in new work. The welcoming news was accompanied by a renewed increase in new export orders and strengthening business confidence.

Meanwhile, price data showed a marked, but softer, upturn in input costs and only modest rate of output charge inflation.

The IHS Markit India Services Business Activity Index increased for the fifth successive month in February – from 55.5 in January to 57.5 – after dipping to a 19-month low in September 2019. The latest figure highlighted the quickest expansion in services output since January 2013.

Those companies that reported higher business activity commented on strengthening demand, supportive economic conditions and accommodative public policies.

Service providers enjoyed a marked increase in new work intakes during February, the second-fastest in over seven years. In some cases, the upturn in sales was linked to successful advertising. As was the case for business activity, the rise in new orders was widespread across the five monitored categories and led by Consumer Services.

A return to growth of new orders from abroad contributed to the increase in total sales. The pace of expansion in international demand for Indian services was moderate, but above its long-run average.

Projects in the pipeline, supportive market conditions, marketing efforts and the offering of new services all contributed to a stronger degree of optimism among firms that output will increase in the year ahead. Finance & Insurance and Consumer Services firms were the most confident during February.

Despite experiencing another increase in outstanding work halfway through the final quarter of fiscal year 2019/2020, service providers restricted hiring activity in February. The rate of job creation was modest and the slowest in three months. Some companies reportedly left workforce numbers unchanged amid sufficient staff to cope with current requirements.

Employment rose in four out of the five tracked sub-sectors, the sole exception being Finance & Insurance. Growth was led by Consumer Services.

Input prices in the service economy increased amid reports of higher food, labour, material and oil costs. Although marked, the rate of inflation softened from January. Anecdotal evidence suggested that lower prices for onions, and fuel helped curtail inflation.

Only a modest increase in selling prices was recorded in February, one that was softer than in January and much weaker than noted for input costs. Around 6% of firms lifted their fees due to rising cost burdens, but the remaining companies left them unchanged.

While the strongest rate of input cost inflation was noted in the Consumer Services segment, the sharpest rise in charges was recorded in Finance & Insurance.

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February data showed that robust increases in both manufacturing and services output pushed growth of private sector business activity to an eight-year high. The Composite* PMI Output Index was up from 56.3 in January to 57.6, remaining above its long-run average of 54.6.

Growth of aggregate new orders held close to January’s seven-year high. Robust increases were noted among goods producers and service providers, with the sharper rate of expansion among the former.

Private sector international sales expanded at the quickest pace in just under three-and-a-half years, as a further marked rise in the manufacturing industry was accompanied by a rebound in the service sector.

On a less upbeat tone, job creation eased to a three-month low in February, with softer increases noted in both the manufacturing and service sectors.

Commenting on the latest survey results, Pollyanna de Lima, Principal Economist at IHS Markit, said:

"Growth in India’s service sector accelerated further halfway through the final quarter of fiscal year 2019/20, with the trend for business activity improving in each month since last September when the sharpest contraction for 19 months was recorded."

"Behind the resilience in the trend for business activity stands healthy demand for services from both the domestic and international markets. "The data also showed that service providers experienced a marked improvement in workforce productivity, with the sharp rise in business activity happening despite a softer and only modest increase in employment."

"Positive gains in new work across the manufacturing and service sectors suggest that private sector output will likely increase markedly again in March, boding well for final quarter GDP following expectations of a flat growth rate in Q3 FY 2019/20."
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
February data were collected 12-26 February 2020.

Survey data were first collected December 2005.

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