IHS Markit India Services PMI®
Including IHS Markit India Composite PMI®

Services activity falls as sales growth stalls

Key findings

- Business activity declines for first time in over a year
- New work broadly stagnates
- Job creation at 22-month low

PMI data for India indicated that economic conditions in the service sector weakened, as broadly stagnant sales caused the first drop in business activity in over a year. Although the labour market showed signs of resilience, there was a notable slowdown in job creation. Optimism towards growth prospects was sustained, but confidence was down from May.

At 49.6 in June, down from 50.2 in May, the IHS Markit India Services Business Activity Index posted in contraction territory for the first time since May 2018. According to survey participants, weak sales, competitive pressures and unfavourable taxation all hampered output.

New business rose only fractionally during June, with the respective index posting at a nine-month low. Survey evidence indicated that some firms secured new work amid successful advertising, while others saw order books shrink due to competitive pressures and weak underlying demand.

International sales increased for the fourth straight month, albeit at the slowest pace in this sequence.

Unfinished business continued to rise in June, which panel members linked to delayed client payments. The rate of backlog accumulation was, however, modest and the weakest in the year-to-date.

To assist with their workloads, services companies took on additional staff in June. The latest rise in employment was the twenty-second in as many months, but the slowest over this period. Firms that refrained from hiring mentioned that workforce numbers were sufficient to cope with current workloads.

Amid reports of higher prices for cosmetics, fuel, gold, meat and vegetables, there was a further increase in operating expenses among service providers. Despite accelerating from May’s 28-month low, the overall rate of input cost inflation was negligible and below the average over the survey history.

Still, the latest uptick in cost burdens was sufficient to drive another round of upward revisions to selling prices. The rate of charge inflation was marginal overall, holding close to May’s three-month low and thereby remaining below its long-run trend.

Hopes of an improvement in demand conditions and marketing efforts underpinned optimism among Indian service providers. That said, the overall level of positive sentiment weakened to a four-month low.

Sub-sector data highlighted Finance & Insurance as the best-performing category in June, with trends for business activity and sales the best of the five monitored sectors. As a result, job creation in this segment strengthened.

Real Estate & Business Services was the weakest link in June, where a marked drop in new work translated into a faster contraction in output and unchanged employment.

At the same time, Consumer Services recorded the first drop in business activity in one year. Underlying data indicated that this was the result of the slowest rise in new work intakes in 11 months. Job creation was sustained, but moderated to the softest since March 2018.
Resilient manufacturing industry offsets services weakness

Private sector activity continued to rise in June, supported by sustained growth of manufacturing production. At 50.8, the seasonally adjusted IHS Markit India Composite* PMI Output Index was inside expansion territory for the sixteenth straight month. However, the index fell from 51.7 in May to its lowest mark in over a year. Sector data showed a softer upturn in factory output and a decline in services activity.

Aggregate sales rose to the least extent in nine months, with slower increases noted at goods producers and service providers.

Similarly, job creation moderated in both sectors, resulting in the weakest rise in private sector employment since August 2017.

Input cost trends were similar, with prices rising marginally across the two sectors. However, service providers lifted their fees, whereas manufacturers offered discounts.

*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, Principal Economist at IHS Markit, said:

“The latest PMI results for India bring some concerns over the sustainability of the relatively robust growth rates seen at the start of the year, and the ability of companies to create jobs.

“Looking at the opening quarter of fiscal year 2019/20, we see the slowest upturn in private sector output since the last quarter of fiscal year 2017/18, which dragged employment growth down to a notable extent.

“The manufacturing industry displayed some resilience in June, although growth of demand, jobs and production waned.

“In the service sector there was an outright contraction in business activity, which was prompted by broadly stagnant sales. It’s somewhat surprising to see some companies linking subdued demand to high tax rates, two years on from the GST implementation, with the hotel tax mentioned in particular.

“Services companies are hoping that some stimulus will boost demand in the coming months, translating into output growth, though confidence about the future also started to fade.”
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. June 2019 data were collected 12-26 June 2019.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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