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IHS Markit India Services PMI®

Including IHS Markit India Composite PMI®

Indian service sector moves towards stabilisation in September

Key findings

Headline Business Activity Index only fractionally below 50.0

New work intakes fall at softer rate

Firms become optimistic regarding growth prospects

September data were collected 11-28 September

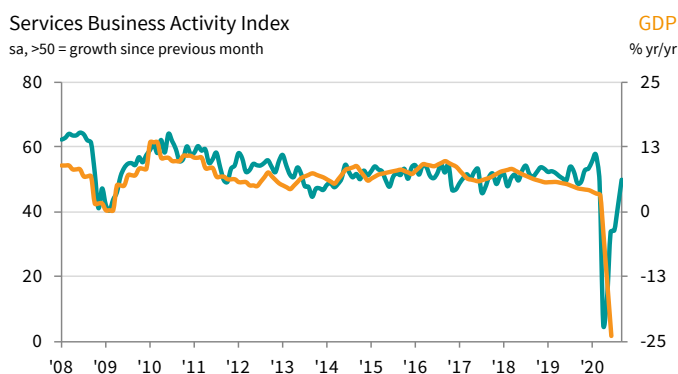
Amid reports of the relaxation of coronavirus pandemic 2019 (COVID-19) restrictions, Indian service sector output broadly stabilised during September. Encouragingly, survey participants were upbeat about the year-ahead outlook for business activity for the first time since April.

On a less positive tone, there were further reductions in new work and employment. Incoming new business fell moderately, however, and at the slowest rate since March. Input costs meanwhile rose at a quicker pace, while the rate of charge inflation was broadly similar to August.

The seasonally adjusted India Services Business Activity Index rose for the fifth straight month in September, from 41.8 in August to 49.8. The latest reading was indicative of broadly stable output across the sector. Monitored companies that observed growth commented on the reopening of business units amid the loosening of lockdown rules. Firms that reported a contraction mentioned the damaging impact of the pandemic on demand.

Indeed, overall new business declined. The fall was the seventh in consecutive months, though moderate and the weakest since March.

New orders from abroad likewise contracted at the slowest pace in six months, but here the reduction was sharp. According to panel members, international demand was restricted by the global COVID-19 pandemic.



Sources: IHS Markit, CSO.

In line with hopes that a vaccine for COVID-19 will be rolled out, companies were optimistic about the year-ahead outlook for business activity. September marked the first month since April in which service providers were confident towards growth prospects.

While some firms lowered headcounts due to ongoing declines in new work intakes, others reportedly attempted to increase them but could not find suitable candidates for current job openings. As a result, services employment decreased for the seventh month in a row and at a quicker rate than in August.

Subsequently, there was a sharp rise in outstanding business at companies operating in the Indian service sector at the end of the second quarter of fiscal year 2020/21. Moreover, the rate of backlog accumulation was little-changed from August's survey record.

Input prices rose in September, with monitored companies citing higher fuel, meat and vegetable costs. The overall rate of inflation was at a seven-month high, but remained below its long-run average.

Prices charged for the provision of services in India increased during September, as was the case in August. The rate of inflation was broadly similar to that seen in the preceding survey period, thereby remaining modest by historical standards. Companies that lifted their fees indicated that additional cost burdens had been shared with clients.

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IHS Markit India Composite PMI®

Aggregate output rises for first time in six months

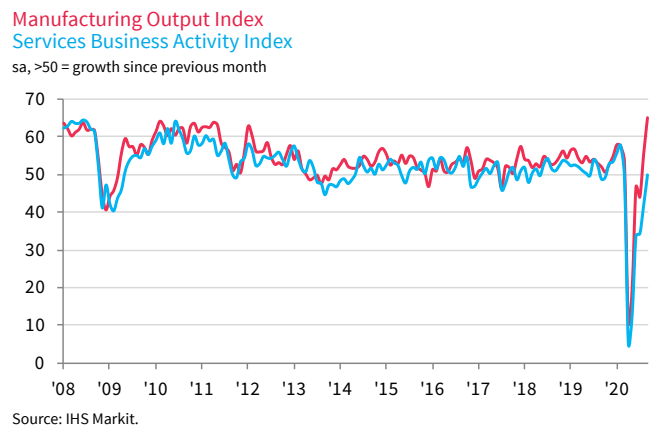
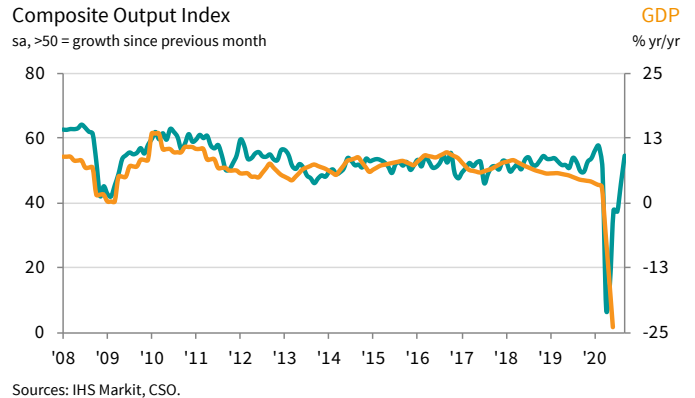
Following contractions in each of the previous five months, private sector activity in India expanded during September. The upturn was supported by the sharpest increase in manufacturing production in close to 13 years and a stabilisation of services activity. Rising from 46.0 in August to 54.6, the Composite* PMI Output Index signalled a marked rate of activity growth across the private sector economy.

There was also a renewed increase in aggregate new orders, the first since February. Growth was centred on the manufacturing industry as service providers continued to record a fall in new work intakes.

The trend for employment was similar among goods producers and service providers, with companies in both sectors linking a further contraction in headcounts to labour shortages.

Rates of input cost and output charge inflation accelerated at the composite level, but remained below their respective long-run averages. In both cases, the quicker increase was noted in the service sector.

**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

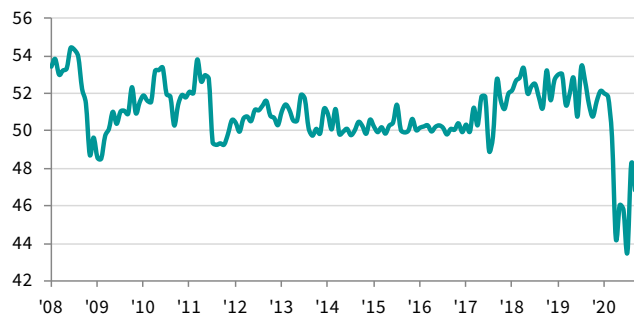
Commenting on the latest survey results, Pollyanna De Lima, Economics Associate Director at IHS Markit, said:

"The relaxation of lockdown rules in India helped the service sector move towards a recovery in September. Participants of the PMI survey signalled broadly stable business activity and a much softer decline in new work intakes. Payroll numbers decreased further, but several firms reported that attempts to take on extra workers were hampered by a lack of available labour. Backlogs data suggest that hiring efforts will continue in the near-term, however, so we could see a better employment trend in coming months provided that people are willing to leave

their hometown in search for vacancies. "Taking into account the performance of the manufacturing industry, a better picture of the Indian economy is painted. Private sector output expanded for the first time in six months during September, and at an above-trend rate, while the increase in sales was the first since February. The news will be welcomed by policymakers, particularly following the pandemic-related 23.9% contraction in GDP in the opening quarter of fiscal year 2020/21."

Services Employment Index

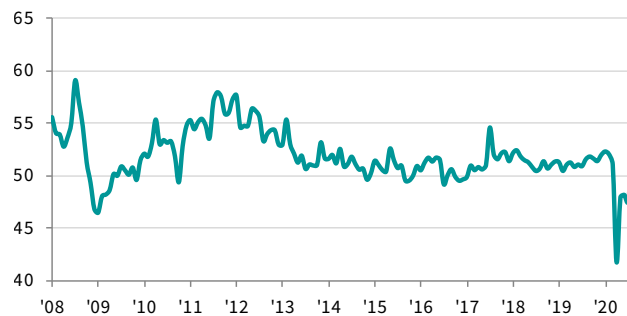
sa, >50 = growth since previous month



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.

Survey dates and history

September data were collected 11-28 September 2020.

Survey data were first collected December 2005.

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