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IHS Markit India Services PMI®

Including IHS Markit India Composite PMI®

Service sector remains mired in deep downturn

Key findings

Business activity falls sharply in June as COVID-19 crisis continues

Order book volumes hit hard by economic weakness

Business sentiment slides deeper into negative territory

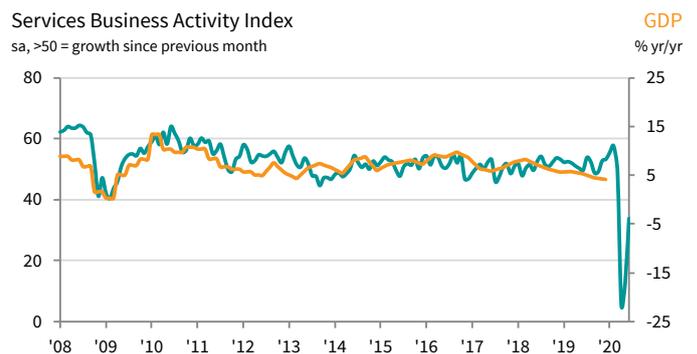
June data were collected 12-26 June 2020.

The Indian service sector remained under intense strain during June, according to the latest PMI survey, as activity fell at another substantial month-on-month rate amid the ongoing economic disruption caused by the coronavirus disease 2019 (COVID-19) pandemic. Although the deterioration was weaker than in both April and May, owing to a stabilisation in output levels at some firms, the latest reduction was still stronger than any seen prior to the virus outbreak by a wide margin.

The IHS Markit India Services Business Activity Index recorded 33.7 in June. This was up sharply from 12.6 in May, but remained below the neutral 50.0 mark for a fourth successive month, signalling another decline in service sector output. Although the downturn lost further momentum in June, it remained excessively strong as the COVID-19 pandemic curtailed intakes of new work and disrupted business operations. The slower rate of decline was reflective of some stabilisation in activity levels, with around 59% of firms reporting no change in output since May. Meanwhile, only 4% registered growth, while 37% recorded a reduction.

Amid the ongoing disruption to economic activity caused by the COVID-19 pandemic, survey respondents pointed to further weakness in demand conditions. Total new orders fell at a sharp pace during June, which firms attributed to reduced consumption habits and lower requirements at key clients. In some instances, customers had closed their businesses due to the unfavourable environment.

Weak demand was particularly acute on the international front, with survey data pointing to yet another steep drop in export sales. Restrictions related to travel hindered overseas orders,



Sources: IHS Markit, CSO.

according to anecdotal evidence.

As conditions continued to deteriorate in June, surveyed companies became more pessimistic towards their prospects over the coming 12 months. Business confidence slid to a survey low and also pointed to strongly negative expectations towards activity levels in the year ahead. The heightened risk of a protracted recession was commonly noted by pessimistic firms.

Meanwhile, employment across the Indian service sector fell during June. Job losses were attributed to lower business requirements, although some companies reported poor staff availability. Consequently, there were signs of capacity pressures building in June as outstanding contracts rose, despite overall activity continuing to fall sharply.

For a third month running, Indian service providers reported a reduction to their input costs in June. Where a decrease was reported, firms attributed this a general reduction in running costs due to lower activity levels at their units. Although the rate of deflation eased considerably, it was historically marked. Lower expenses were passed through to clients via discounts in June. Selling charges fell modestly and at a similar rate to that seen in May.

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IHS Markit India Composite PMI®

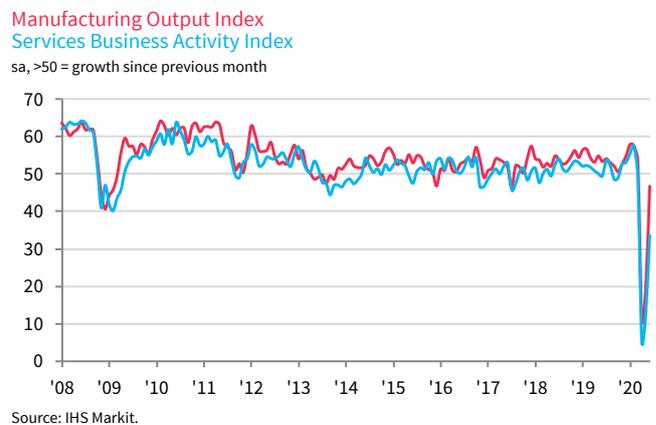
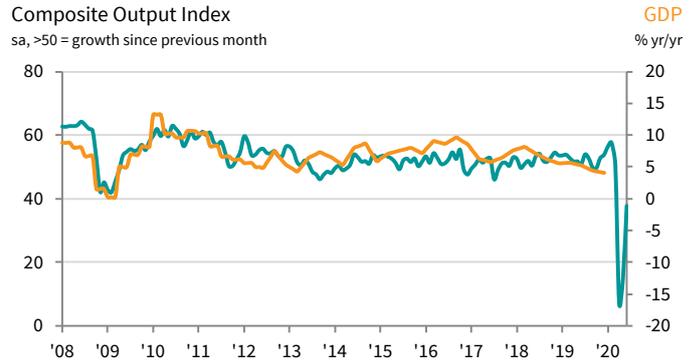
Downturn loses momentum in June, but remains steep

The Composite* PMI Output Index, which measures combined services and manufacturing output, rose to 37.8 in June, up from 14.8 in May but still below the crucial 50.0 level which separates growth from contraction. Overall, the latest data signalled a further steep, albeit considerably slower rate of decline in private sector activity.

Both manufacturing and service sector output fell when compared to May, although rates of decline differed vastly. While manufacturing production fell moderately, edging closer to stabilisation, services activity continued to decrease substantially.

Demand conditions facing both sectors remained subdued in June, although, as was the case with output, the service sector observed the stronger reduction in orders. Consequently, there was a broad-based decline in employment.

**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, Joe Hayes, Economist at IHS Markit, said:

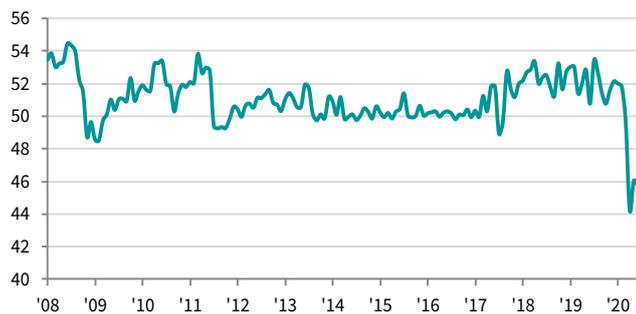
"India's service sector continued to struggle in June as the country's coronavirus crisis worsened. Simply put, the country is gripped in an unprecedented economic downturn which is certainly going to spill over into the second half of this year unless the infection rate can be brought under control.

"Some companies have seen activity stabilise, but this is most likely just reflecting closures and temporary suspensions. While this will have contributed to a rise in the PMI figures, this certainly isn't a promising sign. A

large fraction of the survey panel are still reporting falling activity and order book volumes, reflecting an intensely challenging domestic picture in India."

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

Joe Hayes
Economist
IHS Markit
T: +44 1491 461 006
joseph.hayes@ihsmarkit.com

Bernard Aw
Principal Economist
IHS Markit
T: +65 6922 4226
bernard.aw@ihsmarkit.com

Katherine Smith
Public Relations
IHS Markit
T: +1 781 301 9311
katherine.smith@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

June data were collected 12-26 June 2020.

Survey data were first collected December 2005.

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