

Nikkei India Services PMI[®] (with Composite PMI data)

Slower growth of Indian service sector in August

Key points:

- Business Activity Index falls to 51.5 in August
- Growth in new business eases to a slower pace
- Input cost inflation rises to fastest since November 2017

Data collected August 13-29

August survey data signalled a slower rise in business activity across India's service sector, primarily driven by the weakest growth in new work in three months. Subsequently, firms raised their staffing levels at the slowest pace since last November. On the price front, input cost inflation was marked and the strongest for nine months. On a positive note, business confidence rose to the highest level since May.

The seasonally adjusted **Nikkei India Services Business Activity Index** posted above the neutral 50.0 threshold for the third consecutive month in August, the longest period of expansion seen since 2017. However, the latest reading fell from July's 21-month peak of 54.2 to 51.5 in August, signalling the slowest growth in the current sequence. Where an increase in activity was registered, firms reported on favourable demand conditions.

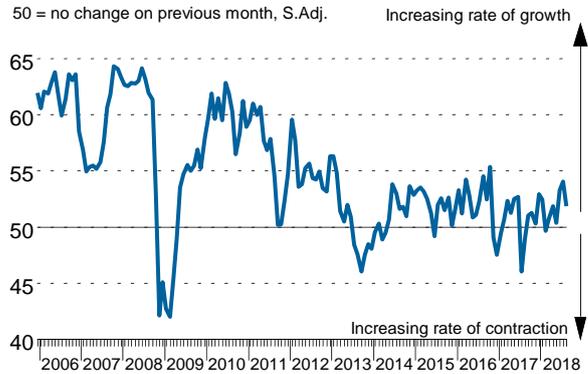
The headline seasonally adjusted **Nikkei India Composite PMI Output Index** fell to 51.9 in August from July's 21-month high of 54.1, driven by weaker growth in both the manufacturing and service sectors. The latest reading pointed to a modest rise in overall output that was the slowest in three months.

New business placed at Indian service providers rose for the sixth consecutive month in August. Strong market demand was associated by panellists with new client wins. That said, the rate of expansion was slight and moderated from July's 13-month high to the weakest since May.

Reflecting strong demand conditions, Indian manufacturing companies registered a further expansion in new orders. Growth eased from the prior month but was solid overall.

As has been the case since last September, service companies raised their payroll numbers during August. Higher employment reflected greater volumes of incoming new business. As was the case with activity and new work, Information & Communications registered the fastest growth.

Nikkei India Composite Output PMI



Sources: Nikkei, IHS Markit.

Reflecting improved demand conditions, the manufacturing sector recorded a further rise in employment. However, job creation was marginal and meant, at the composite level, employment rose at the slowest rate since November 2017.

As has been the case since September 2016, input prices faced by Indian service providers rose during August. Moreover, the rate of increase was the strongest since last November. Stronger inflationary pressures stemmed from higher oil-related prices, according to panellists.

In the manufacturing sector, input cost inflation moderated to the slowest since May but remained sharp overall. Panellists reported that currency weakness led to higher raw material costs.

Meanwhile, service companies raised their average selling prices at a marginal pace that was close to July's 16-month low. Latest survey data suggested that firms were restricted in their ability to fully pass on higher cost burdens to clients due to competitive conditions.

As has been the case since December 2015, business confidence remained positive in August. Moreover, optimism was the strongest in three months. Positive projections for activity in the next 12 months were rooted in upbeat forecasts of sales, an expected improvement in demand and promotional activities.

In contrast, business sentiment at manufacturers softened from July's three-month high and was weaker than the series trend.

Comment:

Commenting on the Indian Services PMI survey data, **Aashna Dodhia**, Economist at IHS Markit, and author of the report, said:

“August data signalled that the pace of growth in India’s service economy cooled from July’s recent-peak. This was matched by the slowest expansions in new business and employment since May and November 2017 respectively.

“Input cost inflation in the service sector accelerated to the sharpest since November 2017, fuelled by higher oil-related prices. Meanwhile, firms faced pressure on their margins as they were unable to fully pass on higher cost burdens to price-sensitive customers.

“However, amid reports of strong demand conditions, the overall economy registered in expansion territory for the sixth consecutive month, marking the longest period of growth since a 16-month sequence ended in October 2016. On another positive note, business sentiment towards the 12-month outlook strengthened to a three-month high, with stronger confidence seen among service providers.”

-Ends-



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Notes to Editors:

The Nikkei India Services PMI® is based on data compiled from monthly replies to questionnaires sent to purchasing executives in around 400 private service sector companies. The panel has been carefully selected to accurately replicate the true structure of the services economy.

The Nikkei India Composite PMI® is a weighted average of the Manufacturing Output Index and the Services Business Activity Index, and is based on original survey data collected from a representative panel of around 800 companies based in the Indian manufacturing and service sectors.

Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'. Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

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