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IHS Markit India Services PMI®

Including IHS Markit India Composite PMI®

Services activity rebounds in August amid renewed growth of new business

Key findings

New orders expand at fastest rate since January 2013

Output rises for first time in four months

Business sentiment turns positive in August

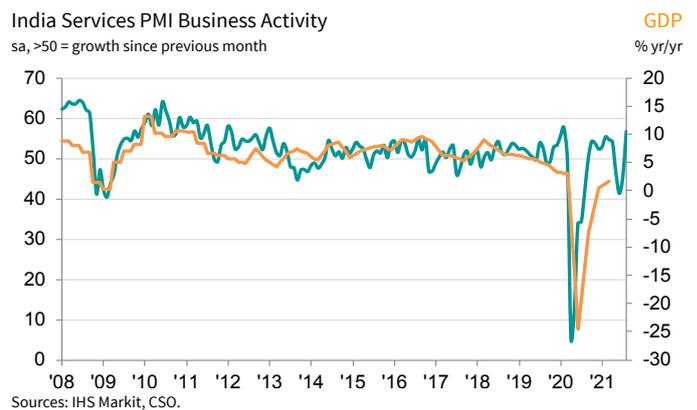
Data were collected 12-26 August 2021.

Indian service sector growth resumed in August as the pandemic continued to recede and vaccine access improved. Companies indicated that the reopening of several establishments and increased consumer footfall boosted sales, which in turn supported the first expansion in output in four months and a rebound in business confidence. The data showed that firms had ample capacity to deal with rising new orders, however, which was a factor that prevented job creation.

At 56.7 in August, up from 45.4 in July, the seasonally adjusted India Services Business Activity Index was above the 50.0 neutral threshold for the first time in four months. The latest reading pointed to a marked rate of expansion that was the fastest in one-and-a-half years. Where growth was reported, panellists mentioned strong inflows of new work and improved demand conditions.

New orders placed with service providers rose in August, ending a three-month sequence of reduction. Moreover, the pace of expansion was marked and the quickest in over eight-and-a-half years. According to survey respondents, sales growth stemmed from greater consumer footfall, the reopening of several firms and successful advertising.

While demand conditions in the domestic market was generally conducive of growth, firms saw a further decline in new export orders. The downturn was often associated with the pandemic and travel restrictions. The rate of contraction in new business from abroad remained sharp.



Service providers expect the lifting of COVID-19 restrictions to support the economic recovery. Output is predicted to rise over the course of the coming 12 months, with the overall level of positive sentiment climbing to a five-month high. The improvement was in stark contrast to July when companies were downbeat in their assessments for the first time in a year.

Despite signalling upbeat growth projections, service providers again lowered headcounts in August. However, the rate of job shedding was marginal and the weakest since January. Several firms indicated having sufficient workers to meet demand needs.

Indeed, outstanding business volumes decreased halfway through the second quarter of fiscal year 2021/22. Although moderate, the pace of depletion was the most pronounced since April 2020.

Service providers indicated that higher fuel, retail and transport prices pushed up their expenses in August. Overall input costs increased at the strongest rate in four months and one that outpaced its long-run average.

Charges levied by services companies likewise increased in August. That said, the rate of inflation softened to the weakest since March and was only marginal.

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IHS Markit India Composite PMI®

Aggregate output and sales return to expansion territory in August

August data pointed to a renewed increase in private sector activity across India, ending a three-month period of downturn. The Composite* PMI Output Index was up from 49.2 in July to 55.4, signalling a robust rate of expansion. Services firms outperformed manufacturers for the first time in over three years.

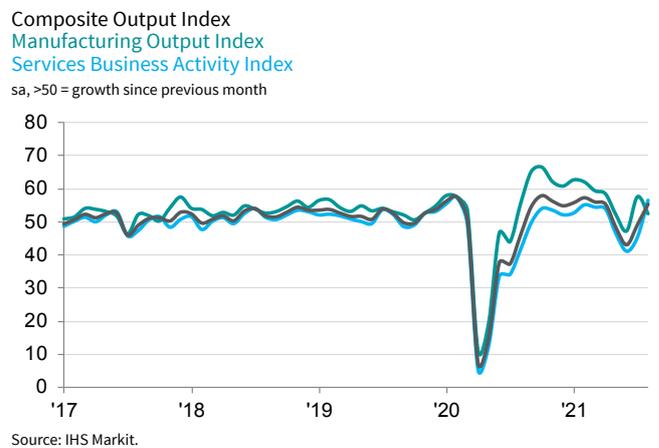
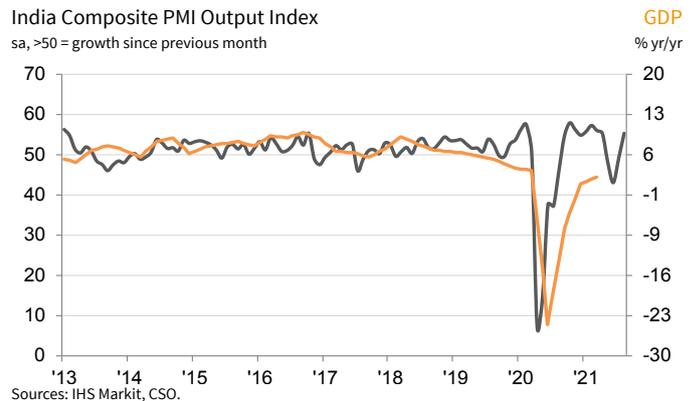
Aggregate new orders rose in August, after declining in each of the previous three months. The pace of increase was solid and above the long-run series average. Growth softened noticeably among goods producers, while services firms noted the first expansion in sales for four months.

Employment at the composite level declined further in August, but the pace of contraction eased to the slowest in 17 months. Marginal falls in jobs were recorded in the manufacturing and service sectors.

Private sector companies in India noted a sharp rise in input costs that was the quickest since April. Inflation was more pronounced in the service sector than in the manufacturing industry.

However, goods producers increased their charges at a faster rate than services firms. At the composite level, output prices rose at a slight pace that was the slowest since March.

**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 Indian service sector bounced back in August, led by the reopening of several establishments and improved client confidence due to growing vaccine coverage. A substantial pick-up in domestic demand underpinned the strongest monthly increase in new business for over eight-and-a-half years and renewed growth of activity.

"Service providers foresee a brighter

outlook, with firms indicating that the economic recovery could be sustained if restrictions continue to be lifted and further waves of contamination can be avoided. This was a notable turnaround in confidence from July, when companies were pessimistic towards growth prospects.

"Less upbeat news came from the survey's employment measure, with services jobs shrinking again amid sufficient capacity among firms to meet current demand needs. There was at least a slowdown in the pace of job shedding. Another

worrying aspect was the evidence that inflationary pressures continued to mount. Input costs increased at the fastest rate in four months, one that outpaced its long-term average."

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

Data were collected 12-26 August 2021.

Survey data were first collected December 2005.

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