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IHS Markit India Services PMI®

Including IHS Markit India Composite PMI®

Growth of services activity, sales and jobs soften in August

Key findings

Job creation and output expansion curbed by weaker sales gains

Rates of inflation remain historically weak

Business sentiment strengthens to one-year high

Business conditions in the Indian service sector remained conducive to economic growth in August, with PMI data highlighting sustained increases in activity, sales and employment. However, in all three cases, rates of expansion softened from July.

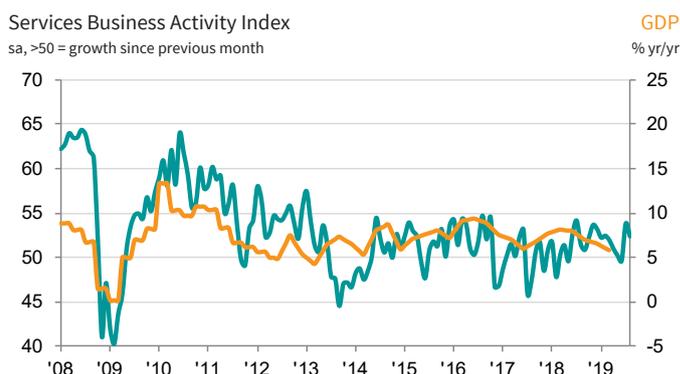
Inflationary trends were mixed, with a slower increase in input costs contrasting with a faster upturn in charges. Meanwhile, supportive public policies and predictions of better demand pushed business sentiment up to a one-year high.

The IHS Markit India Services Business Activity Index declined from 53.8 in July to 52.4 in August, pointing to a slower rate of increase in output. The upturn was modest and below its long-run average. Companies that signalled growth commented on favourable government policies, improved technology and new business gains.

Mirroring the trend for output, new business inflows rose at a softer pace in August. Growth was, however, sustained in four of the five monitored sub-sectors, the sole exception being Real Estate & Business Services.

Despite easing from July, the increase in new export orders remained stronger than that seen for total new work. Survey participants indicated that advertising efforts boosted international sales in August.

In response to ongoing increases in new work and upbeat growth projections, firms hired additional workers in August. The latest rise took the current stretch of job creation to two years and the pace of expansion remained above its long-run average, despite easing from July. Furthermore, employment



growth was evident in each of the five broad areas of the service sector.

Service providers remained confident of a rise in business activity in the coming 12 months, with optimism strengthening to a one-year high. Forecasts of better demand conditions, marketing initiatives and accommodative public policies all boosted sentiment in August.

Amid reports of delayed client payments, services companies registered a further increase in outstanding business during August. The rise was the thirty-ninth in as many months and accelerated to the fastest since April.

Input prices continued to increase, with survey participants reporting higher food, fuel and staff costs. That said, the overall rate of inflation softened in August and was negligible in the context of historical survey data. Information & Communication was the only monitored category in which cost burdens did not rise.

To guard against the detrimental impacts of rising costs on margins, services companies lifted their selling prices again in August. The rate of charge inflation quickened to a 17-month high, but remained below its long-run average.

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IHS Markit India Composite PMI®

August sees softer increase in Indian aggregate output

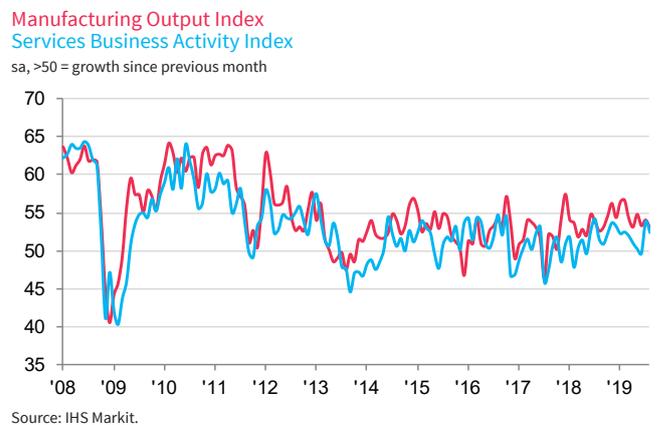
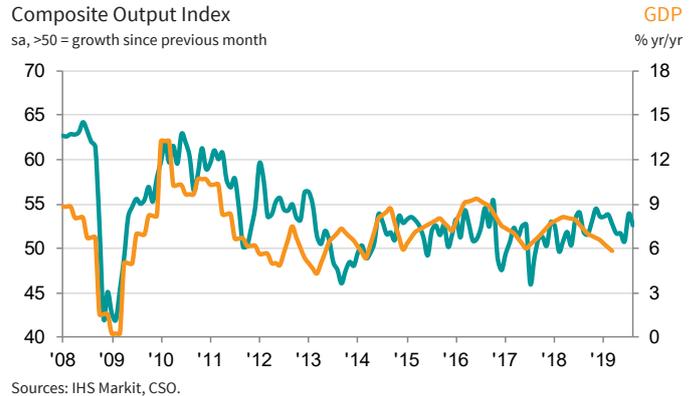
Growth of Indian private sector activity eased from July's eight-month high, reflecting a slowdown in new business gains. Growth lost momentum in both the manufacturing and service economies.

At 52.6 in August, the Composite* PMI Output Index posted in expansion territory for the eighteenth month in a row. However, falling from 53.9 in July, the latest figure was consistent with a slower and only moderate rate of increase.

Similarly, growth of aggregate new orders moderated from July and was modest. As was the case for output, softer rates of expansion were evident in the manufacturing and service sectors.

Private sector jobs rose further in August, but the pace of expansion eased. For the second month running, the stronger rate of increase was noted in the service economy.

**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 weaker PMI readings for India's service sector match the trend noted in the manufacturing industry, bringing unwelcome news of a cooling economy halfway through the second quarter of fiscal year 2019/20.

"Although the two surveys combined point to another round of job gains, a retreat in the rate of employment expansion highlight a wait-and-see

approach among businesses who are longing for a meaningful and sustained pick-up in demand growth.

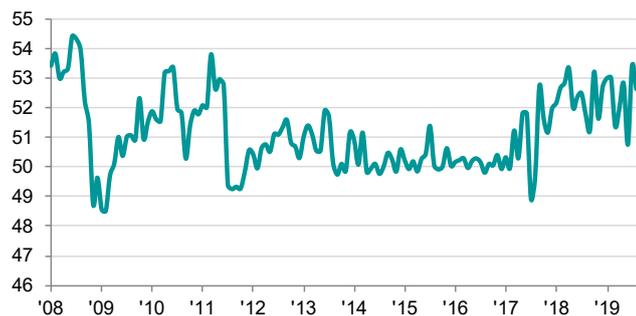
"An important development, however, is evident in a rebound in business sentiment. Both manufacturers and service providers believe that supportive public policies can help shift growth momentum into a higher gear in the coming 12 months.

"Despite signals of slower growth, survey data indicated that private sector companies maintained some

pricing power, particularly service providers who hiked their charges to the greatest extent in close to one-and-half years."

Services Employment Index

sa, >50 = growth since previous month



Services Prices Charged Index

sa, >50 = inflation since previous month



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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.

August 2019 data were collected 12-28 August 2019.

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

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