Extreme slide in business activity seen once again during May

Key findings

Services activity contracts sharply due to COVID-19 pandemic

Demand for services plummets amid lockdown measures

Firms cut employment as business expectations turn negative

May data were collected 12-27 May 2020.

Business activity across India’s service sector fell drastically during May as the unfavourable economic effects of the coronavirus disease 2019 (COVID-19) pandemic impaired business operations, restricted consumer footfall and led demand to collapse. While most measures came off the unprecedented lows seen in April, survey data still pointed to extreme month-to-month declines in output and new orders.

Spare capacity continued to rise, albeit to a far lesser degree than in May as prolonged shutdowns led to a rise in incomplete work at some companies. Meanwhile, employment continued to fall in response to weak demand and expectations of further challenging conditions.

The IHS Markit India Services Business Activity Index recorded 12.6 in May. Although the headline figure rose from April’s unprecedented low of 5.4, it remained at a level which, prior to the coronavirus pandemic, was unparalleled in over 14 years of data collection and pointed to an extreme drop in services activity across India.

According to panel member reports, output sank sharply due to extended business shutdowns and very weak demand conditions. Latest survey data pointed to a substantial decline in new work intakes at Indian service providers during May. Measures imposed to stem the spread of COVID-19 were a key reason behind the latest drop in sales, as per anecdotal reasons. The rate of decrease was marginally softer than seen in April, but was nonetheless steep by historical comparisons.

New business from overseas markets collapsed on an unprecedented scale once again during May, with around 95% of surveyed companies reporting a fall in foreign demand when compared to April. The global COVID-19 pandemic was overwhelmingly mentioned as the factor causing international business to decrease.

With many businesses remaining shut down during May, the extent to which spare capacity grew slowed markedly as a number of firms reported a build-up in unfinished work due to idle operations. Nevertheless, backlogs of work declined overall.

In response to absent demand pressures and low business requirements, employment at Indian service sector companies was reduced during the latest survey period. The rate of job shedding remained strong by historical comparisons, despite easing since April.

Lower staffing levels also coincided with a further deterioration in business sentiment. Output expectations for the coming 12 months slumped to their most negative since records began in December 2005 amid forecasts of prolonged economic weakness domestically and overseas.

Lastly, prices data showed deflationary trends across both input costs and output charges midway through the second quarter. However, while the rate at which output price fell slowed, operating expenses dropped at the fastest rate in the survey history.
Economic downturn remains severe in May

The Composite* PMI Output Index, which measures combined services and manufacturing output, signalled a further severe contraction in private sector business activity during May. Posting 14.8, from 7.2 in April, the latest reading was consistent with a further decline in output which was unparalleled prior to the COVID-19 outbreak.

Both manufacturing and service sector output fell at similarly-substantial rates during May, although the sharpest decline remained among the latter. Demand for goods and services continued to sink at a considerable pace, despite rates of contraction easing at both manufacturers and service providers.

Aggregate employment fell further during May, although a weaker decline at services companies contrasted with a steeper drop at goods producers.

There was a notable easing in the rate of output price deflation, which continued to be outpaced by the drop in operating costs.

*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:

"Service sector activity in India is still effectively on hold, latest PMI data suggest, as output fell at an extreme rate once again during May. Given the stringency of the lockdown measures imposed in India, it is no surprise to see the severity of the declines in April and May.

"Demand for services, both domestically and overseas, continued to plummet in May as clients’ businesses remained closed and footfall remains drastically below normal levels. "With economic output set to fall enormously in the first half of 2020, it is clear that the recovery to pre-COVID-19 levels of GDP is going to be very slow."
IHS Markit India Services PMI®

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 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.

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

Survey dates and history
May data were collected 12–27 May 2020.
Survey data were first collected December 2005.

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Services Employment Index
\( sa \rightarrow 50 = \text{growth since previous month} \)

Source: IHS Markit.

Services Prices Charged Index
\( sa \rightarrow 50 = \text{inflation since previous month} \)

Source: IHS Markit.

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