IHS Markit India Manufacturing PMI®

Business conditions continue to deteriorate in July amid prolonged closures

Key findings

Health of the manufacturing sector declines at slightly quicker pace

Both output and new orders continue to fall markedly

Business sentiment improves but remains historically subdued

Latest PMI® data pointed to another marked deterioration in the health of the Indian manufacturing sector. Output contracted at a slightly faster pace than in June, as demand conditions remained subdued with some businesses still closed amid lockdown extensions. Firms responded by cutting both staff numbers and purchasing activity. However, despite the ongoing negative impact of the coronavirus disease 2019 (COVID-19), sentiment towards future activity improved for the second month running.

At 46.0 in July, the seasonally adjusted IHS Markit India Manufacturing PMI fell from 47.2 in June, and pointed to a marked deterioration in business conditions across the Indian manufacturing sector.

The downturn was partially driven by a further contraction in output. Although far softer than recorded in April and May, the rate of reduction accelerated from June and was sharp overall. Anecdotal evidence indicated that firms pared back production in line with weaker demand conditions.

Subdued demand was evidenced by another marked decrease in new orders placed with manufacturers during July. Similar to the trend for output, the pace of decline accelerated from June, but remained slower than at the height of the current crisis. When explaining falling sales, panellists often cited prolonged closures at their clients’ businesses.

Weighing on aggregate demand was a further contraction in new export orders at the start of the third quarter. Survey participants commented that international clients were hesitant to place orders while the duration of the pandemic remained uncertain. That said, the latest reduction in exports was the softest for four months.

Deteriorating demand conditions led Indian manufacturers

Comment

Commenting on the latest survey results, Eliot Kerr, Economist at IHS Markit, said:

"Latest PMI data from Indian manufacturers shed more light on the state of economic conditions in one of the countries worst affected by the COVID-19 pandemic. The survey results showed a re-acceleration of declines in the key indices of output and new orders, undermining the trend towards stabilisation seen over the past two months. Anecdotal evidence indicated that firms were struggling to obtain work, with some of their clients remaining in lockdown, suggesting that we won’t see a pick-up in activity until infection rates are quelled and restrictions can be further removed.

"However, on a more positive note, firms remained optimistic, with confidence towards future activity continuing to strengthen during July."
to continue cutting staff numbers during July. The rate of workforce contraction was little-changed from June and faster than any recorded prior to the COVID-19 pandemic.

Amid softer inflows of new orders, goods producers also pared back their purchasing activity in July. The result extended the current sequence of decline to five months. The rate of decline was quicker than in June and solid overall.

In a sign of further supply-side disruption, suppliers’ delivery times continued to lengthen. That said, vendor performance deteriorated to the least extent for four months.

On the cost front, manufacturers reported another decrease in input prices during July. However, the rate of reduction was modest and the slowest in the current four-month sequence of falling costs. Panelist comments indicated that subdued demand for most goods more than offset the inflationary effects of shortages in some raw materials.

Finally, despite current operating conditions continuing to deteriorate, manufacturers were increasingly optimistic regarding future activity. Sentiment towards the 12-month business outlook improved for the second month in a row to reach a five-month high. That said, the degree of positivity was still well below the historical average.