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IHS Markit India Services PMI®

Including IHS Markit India Composite PMI®

New business growth hits 38-month high

Key findings

Faster increases in sales, output and employment

Business confidence strengthens in December

Sharpest rise in input costs for nearly seven years

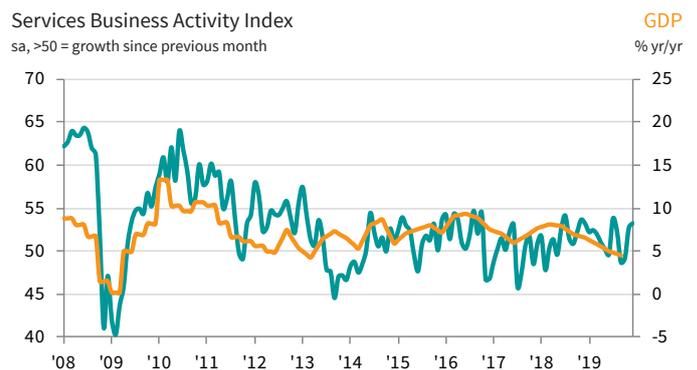
The Indian services economy gained growth momentum in December, shrugging off the weakness recorded in September and October. A marked and accelerated upturn in new work intakes boosted growth of output and employment, whilst supporting an uptick in business confidence. Worryingly, inflationary pressures intensified, with the fastest rise in input costs for almost seven years pushing output charge inflation to a 22-month high.

The IHS Markit India Services Business Activity Index improved from 52.7 in November to 53.3 in December, highlighting the second-strongest rate of increase in output in over a year (behind July). Survey members linked the rise to better market conditions and new business growth.

Total sales expanded for the third consecutive month at the end of the year, and at the quickest pace since October 2016. Where growth was recorded, panellists commented on improved business decisions at the managerial level, the offering of new services and better underlying demand.

The upturn in total new work was achieved with the support of international markets, with services exports rising for the tenth straight month in December. Although moderate, the pace of growth accelerated to the fastest since September.

Amid reports of new business growth, service providers continued to hire extra staff in December. Employment increased for the twenty-eighth month in succession and at a rate that, although modest, was the quickest since August.



Despite ongoing job creation, December data pointed to further capacity pressures at services companies. This was indicated by another monthly increase in outstanding business. That said, the pace of backlog accumulation was only slight and broadly in line with the long-run series average.

Input costs increased further in December, with monitored firms citing higher charges for food, fuel, medical products and transport. The overall rate of inflation was sharp and the fastest in just under seven years.

Consequently, selling prices were lifted again at the year end, taking the current run of inflation to 35 months. The latest increase in output charges was moderate, but the strongest since February 2018.

Indian services companies expect marketing efforts and favourable economic conditions to boost business activity during 2020. Despite rising to a four-month high, the overall level of positive sentiment remained below its long-run average.

Looking at the five broad areas of the service economy, Consumer Services outperformed, posting by far the strongest increases in new business and output.

Consumer Services also registered the steepest rise in input costs during December, but the fastest increase in selling charges was recorded among Transport & Storage firms.

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IHS Markit India Composite PMI®

Stronger increase in private sector output

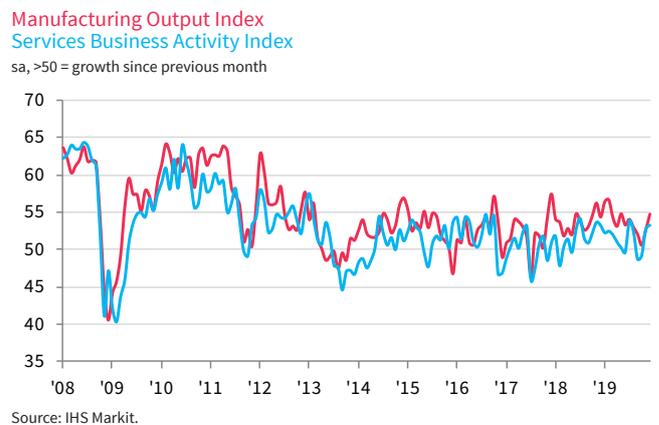
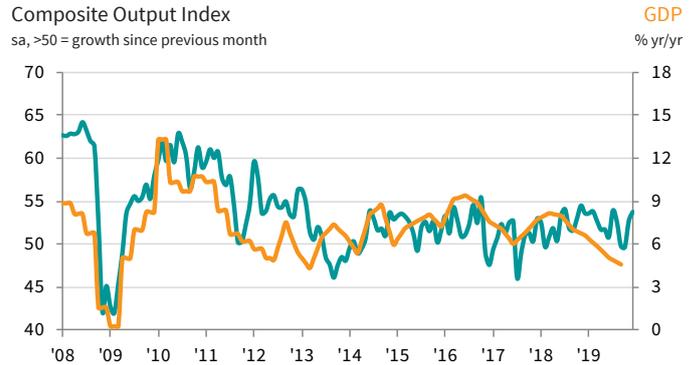
The Indian private sector economy moved further away from the weakness recorded earlier in the quarter, with business activity rising for the second month running in December and at the quickest pace since July. The Composite* PMI Output Index was up from 52.7 in November to 53.7, reflecting stronger rates of expansion in both the manufacturing and service sectors.

One factor supporting the uptick in output growth was a faster rise in aggregate new orders, the joint-strongest in over three years. Rates of increase in sales picked up among goods producers and service providers.

Private sector jobs expanded for the twenty-ninth month in a row during December, and to the greatest extent since August. The rise was broad-based across the manufacturing and service categories.

Aggregate input cost inflation climbed to a 15-month high, underpinning the fastest increase in output charges since February 2018.

**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:

"It's encouraging to see the Indian service sector continuing to recover from the subdued performances noted in September and October. More importantly, the news of sustained job creation, robust new order growth and a pick-up in business confidence suggest that expansion can be maintained in the early part of 2020.

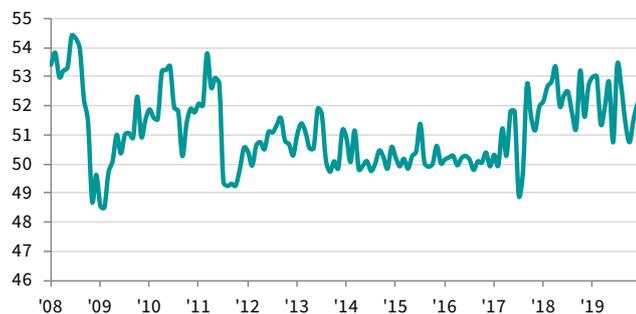
"Worryingly, however, were the survey's results for price indicators. While inflation was subdued in the earlier part of 2019, there were three consecutive accelerations in the rate of input cost inflation this quarter. Services firms saw the fastest rise in their expenses in almost seven years in December.

"With manufacturing sector weakness also fading in December, what was anticipated to be a disappointing private sector performance for the third quarter of fiscal year 2019/20 is now looking brighter. Growth looks set to

be sustained, but at an unspectacular rate, with the latest quarterly PMI Composite Output Index reading broadly in line with that recorded in the three months to September."

Services Employment Index

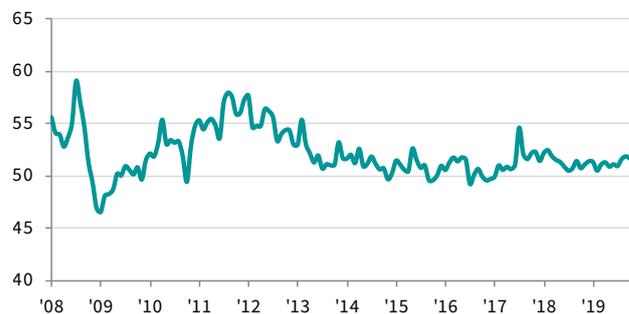
sa, >50 = growth since previous month



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

December data were collected 5-19 December 2019.

Survey data were first collected December 2005.

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