India's service sector recorded its largest month-to-month contractions in business activity and new orders since data collection began over 14 years ago in April, according to the latest PMI data. Measures to stem the spread of the coronavirus disease 2019 (COVID-19), such as restrictions on the movement of citizens and business shutdowns, were the key factors causing output and demand to fall at unprecedented rates. The impact of the global pandemic was particularly striking in export markets, with the entire survey panel registering lower overseas sales.

The IHS Markit India Services Business Activity Index posted 5.4 in April, an extreme decline from 49.3 in March, and indicative of the most severe contraction in services output since records began in December 2005. According to panellists, activity fell severely as a result of the nationwide lockdown, leading businesses to shut down their operations as demand collapsed. Approximately 97% of survey respondents observed a reduction in output, highlighting the widespread impact of the COVID-19 pandemic.

Restrictions on movement across India contributed to the steep drop in new orders during April. Demand for services fell at the sharpest rate in over 14 years of data collection. Some panel members mentioned that key clients closing their businesses had also severely hit workloads.

International sales fell across the entire survey panel in April, as signalled by the respective index falling to 0.0. According to firms, measures to stem the spread of the virus overseas had caused demand to fall across all key export markets.

The historically marked decline in new orders led to a large rise in spare capacity at Indian service providers during the latest survey period. Although output fell sharply, panel comments indicated that a number of clients had cancelled pre-existing orders, leading to a reduction in backlogs of work. The rise in spare capacity was the strongest ever recorded in the survey history.

As a result of lower business requirements, some services companies reduced employment at the start of the second quarter. While the rate of job shedding was a survey record, approximately 90% of respondents reported unchanged workforce numbers.

Looking ahead, latest survey data signalled a further erosion of business confidence in April. Expectations towards future output slumped for a second successive month to their weakest since December 2015. According to panel comments, expectations of a protracted decline in the economy weighed on sentiment.

Elsewhere, prices data showed similar trends at the start of the second quarter. Indian service providers recorded a sharp drop in operating costs which was the strongest since data collection began in December 2005. The drop in expenses were a result of the lockdown, as firms observed lower running costs due to either partial or complete shutdowns. Consequently, firms were able to reduce their fees in an effort to stimulate sales. The rate of deflation was a new survey record.

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The Composite PMI Output Index, which measures combined services and manufacturing output, sank to a new record low in April. At 7.2, the index fell from 50.6 in March and was indicative of an unprecedented decline in private sector business activity. The latest reading was the smallest by some margin, eclipsing the previous low seen in February 2009.

The downturn was severe across both sectors in April, although the contraction in services output was slightly stronger. Demand for goods and services collapsed during the latest survey period, with the respective Composite New Orders Index falling by over 40 points. Both sectors reduced staffing numbers during April in response to lower business requirements.

Meanwhile, input and output prices fell when compared to March, although respective rates of deflation were stronger at manufacturers than service providers.

*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.

Commenting on the latest survey results, Joe Hayes, Economist at IHS Markit, said:

"The Indian services economy posted its worst ever month-on-month drop in business activity during April. The extreme slide in the headline index, which fell by over 40 points, shows us that the strict lockdown measures have led to the sector essentially grinding to a complete standstill. The composite output index, which is a weighted average of manufacturing and services output, also signalled what is by far the worst contraction in economic activity since data collection began in late-2005. Historical comparisons with GDP data suggest that India’s economy contracted at an annual rate of 15% in April. It is clear that the economic damage of the COVID-19 pandemic has so far been deep and far-reaching in India, but the hope is that the economy has endured the worst and things will begin to improve as lockdown measures are gradually lifted."
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
April data were collected 07-28 April 2020.
Survey data were first collected December 2005.

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