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IHS Markit India Services PMI®

Including IHS Markit India Composite PMI®

New business stabilises, but output remains in contraction

Key findings

New work stabilises, following reduction in September

Business activity declines for second month running

Job creation joint-weakest in over two years

Indian service sector activity declined for the second straight month in October, the first back-to-back reduction since the second quarter of fiscal year 2017/18. New business stabilised, following contraction in September, while job creation moderated. At the same time, concerns that challenging economic conditions will linger dragged business confidence to its lowest level in close to three years.

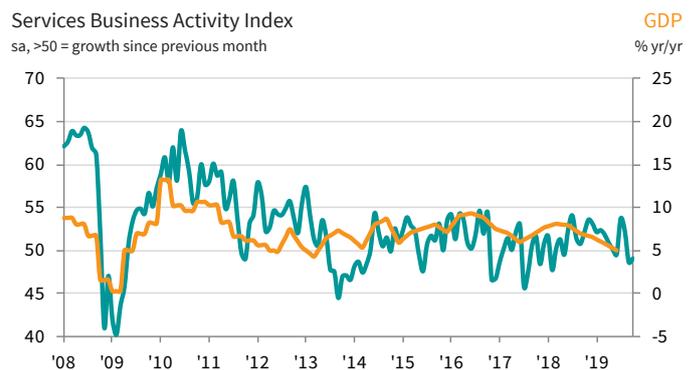
There were mixed trends for prices. Cost inflation climbed to a one-year high, but charges increased at a softer pace as weak demand limited pricing power.

Registering 49.2 in October, the IHS Markit India Services Business Activity Index signalled a second consecutive decline in output. However, rising from 48.7 in September, the headline figure was indicative of a marginal and slower rate of reduction. Anecdotal evidence highlighted subdued demand conditions, competitive pressures and a fragile economic situation.

Total sales were broadly unchanged in October, after contracting in September for the first time in over a year-and-a-half. Companies that secured new work mentioned successful marketing efforts and new client wins, while those that noted lower sales commented on fierce competition for new business.

October data indicated that demand weakness was centred on the domestic market, with exporters posting an increase in international sales. That said, the upturn in external demand was modest and the slowest in four months.

Service sector employment increased for the twenty-sixth month in a row, albeit at the joint-slowest pace over this period. While a few firms took on extra staff, this was curbed by job



Sources: IHS Markit, CSO.

shedding at other companies.

One factor that restricted job creation was subdued confidence towards the 12-month outlook for business activity. The degree of optimism observed in October was among the weakest seen in the near 14-year survey history. A number of panellists were concerned about the possibility that challenging economic conditions will persist.

Meanwhile, pending client payments caused a renewed increase in outstanding business held by service providers. The rise in backlogs was marginal, but contrasted with depletion in September.

Amid reports of higher freight, fuel, material, vegetable and staff costs, input price inflation accelerated to a one-year high in October. The upturn was, however, weaker than seen on average over the series history.

Some companies passed on rising costs to their clients, but a number of firms absorbed additional cost burdens. As a result, average prices charged for the provision of services increased only modestly.

Sub-sector data indicated that Finance & Insurance and Real Estate & Business Services acted as the main drag on the Indian service economy, where both business activity and sales contracted. Consumer Services was the brightest spot, posting strong growth of output and new work.

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IHS Markit India Composite PMI®

Back-to-back declines in private sector activity

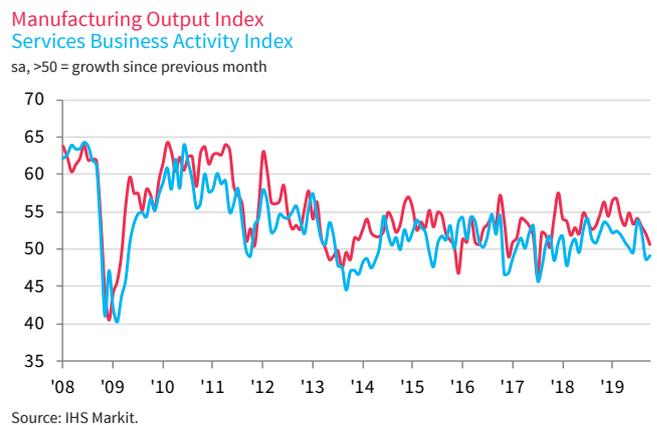
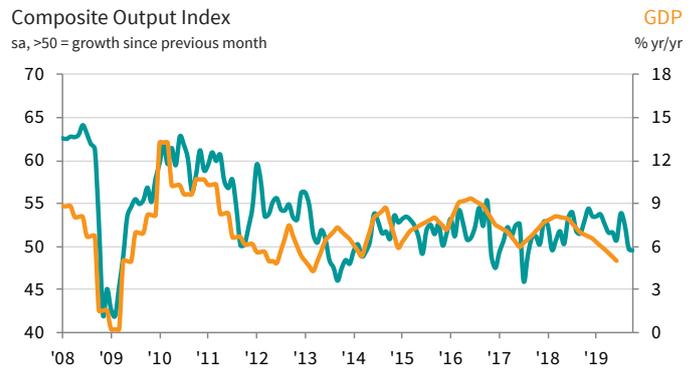
Indian private sector activity decreased for the second straight month in October, reflecting a notable slowdown in growth of factory production and a further contraction in services activity. The Composite* PMI Output Index fell from 49.8 in September to 49.6, signalling a marginal rate of reduction overall.

In contrast to the trend for output, new business received by private sector firms returned to growth territory. The pace of expansion was, however, marginal. Factory orders rose at a softer rate, while there was a stabilisation of sales in the service economy.

Although aggregate employment increased further, the pace of expansion eased to the weakest in over two years. The slowdown in job creation was widespread across the manufacturing and service sectors.

The private sector saw input cost inflation accelerate to an eight-month high, while charges rose to the same extent as in September.

**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 somewhat worrying to see the Indian service sector stuck in contraction, as firms react to muted demand by lowering business activity. Perhaps even more concerning was the downward revision to future expectations, given the possible detrimental impact of subdued business confidence on investment and jobs. The latter already displayed its joint-weakest expansion in over two years.

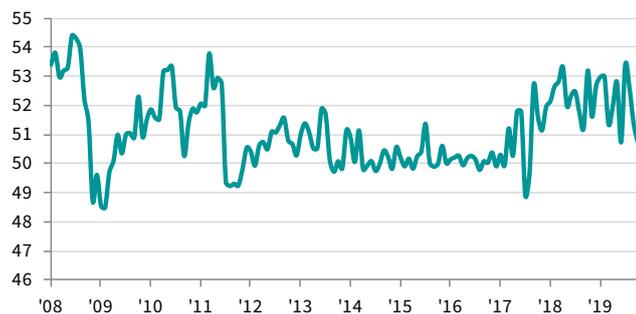
"In attempts to boost sales, service providers absorbed most of the rise in their cost burdens, lifting their fees only slightly despite intensified cost pressures. Still, this wasn't sufficient to generate new work and we might see selling prices being discounted in the coming months as competitive pressures build up.

"Some areas of the service economy performed better than others. While growth was sustained in Transport & Storage, Information & Communication and Consumer Services, softer rates of expansion were evident in all three cases.

At the same time, solid declines in output and new work were recorded at Finance & Insurance and Real Estate & Business Services companies."

Services Employment Index

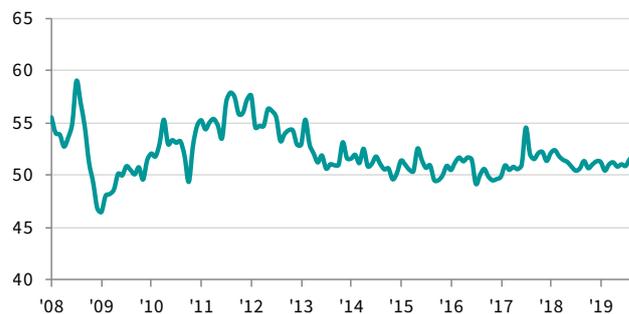
sa, >50 = growth since previous month



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

October 2019 data were collected 9-29 October 2019.

Survey data were first collected December 2005.

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