

Nikkei India Services PMI[®] (with Composite PMI data)

Upturn in business activity during June

Key points:

- Solid expansion in activity, following a marginal decline in May
- New business growth quickens to the fastest since last June
- Cost pressures remain marked

Data collected June 12-27

Following a marginal contraction in May, the Indian service sector returned to growth during June. Moreover, the rate of expansion in activity was the sharpest in a year. This was supported by the strongest rise in new business since last June. Reflecting improved demand conditions, jobs growth picked up from May's five-month low. On the price front, input cost inflation remained solid overall. That said, services providers were unable to fully pass on higher input costs to price-sensitive consumers.

The seasonally adjusted **Nikkei India Services Business Activity Index** rose from 49.6 in May to 52.6 in June. The latest upturn pointed to solid growth that was the fastest since last June. According to anecdotal evidence, the rise in activity was supported by greater inflows of new work.

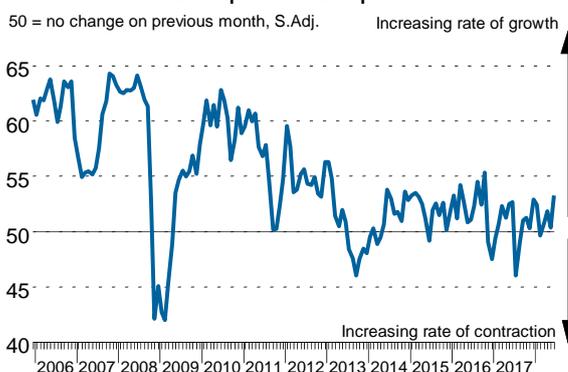
Meanwhile, the seasonally adjusted **Nikkei India Composite PMI Output Index** rose from 50.4 in May to 53.3 in June, supported by output growth in both the manufacturing and service sectors. The latest reading was the strongest seen since October 2016 and indicative of a solid rate of expansion.

Meanwhile, new orders across the service sector rose further in June. Although modest, the rate of growth was the fastest in a year. Panellists reported that strong underlying demand contributed to new client wins.

The level of new business received by manufacturing companies rose at the fastest rate since last December in June. This continued a sequence of uninterrupted growth of eight months. Panellists commented on strong market demand.

Despite an improvement in demand conditions, business sentiment across the service sector dipped to the lowest since last October. While optimism was relatively weak, firms still anticipate activity to rise in the year ahead.

Nikkei India Composite Output PMI



Sources: Nikkei, IHS Markit.

Manufacturing companies also reported business confidence towards the 12-month outlook at the weakest level since October 2017.

In response to greater output requirements and new work, service providers raised their staffing levels during June. Despite being modest, job creation accelerated from May's five-month low. Information & Communications registered the sharpest growth in staffing levels.

Manufacturers also raised their staffing levels during June. Although modest, job creation quickened to the strongest since last December.

Outstanding business at service providers rose in June, thereby stretching the period of expansion to 25 months. The rate of accumulation picked-up from May's 11-month low, but was modest overall. Stronger demand and delayed payments were the key factors contributing to higher backlogs, according to panellists.

On the price front, service providers faced higher cost burdens at the end of the quarter. Moreover, input cost inflation remained solid and was broadly similar to the prior survey period. According to anecdotal evidence, upward inflationary pressures emanated from higher fuel costs.

Meanwhile, Indian manufacturing companies faced their strongest rise in input costs since July 2014 in June. There were reports that fuel and steel were among the main items that saw a rise in market prices.

Amid reports of service companies passing on higher cost burdens on to clients, output charges rose in June. That said, despite greater cost

pressures, firms raised their output charges at the slowest pace in over a year.

Comment:

Commenting on the Indian Services PMI survey data, **Aashna Dodhia**, Economist at IHS Markit, and author of the report, said:

“The service economy returned to expansion territory in June. Encouragingly, the latest performance was the strongest seen in a year, against a backdrop of improving demand conditions, as evidenced by the fastest gain in new business since last June.

“In response to an improvement in demand conditions, service providers raised their staffing levels at a faster pace than in the previous survey period.

“The PMI data signalled the best improvement in the overall health of the economy since October 2016, propelled by solid growth in both the manufacturing and service economies, with the sharper rise in the former. However, overall input costs rose at the strongest rate since July 2014, and amid a weak rupee and higher oil prices, inflation may remain elevated. Given these circumstances, the chances of further monetary policy tightening have heightened.

-Ends-



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Notes to Editors:

The Nikkei India Services PMI[®] is based on data compiled from monthly replies to questionnaires sent to purchasing executives in around 400 private service sector companies. The panel has been carefully selected to accurately replicate the true structure of the services economy.

The Nikkei India Composite PMI[®] is a weighted average of the Manufacturing Output Index and the Services Business Activity Index, and is based on original survey data collected from a representative panel of around 800 companies based in the Indian manufacturing and service sectors.

Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'. Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

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IHS Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from IHS Markit. Please contact economics@ihsmarkit.com.

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