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IHS Markit India Services PMI®

Including IHS Markit India Composite PMI®

Services activity and new orders up for first time since February

Key findings

Renewed increase in bookings supports activity growth

Business optimism strengthens in October

Input cost inflation at eight-month high

Data were collected 12-28 October 2020.

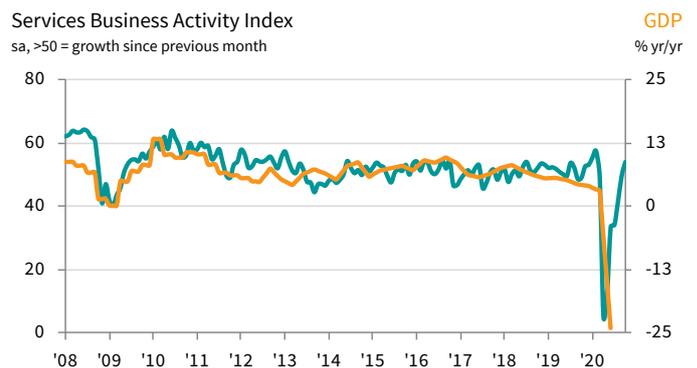
Indian services companies suggested that the relaxation of COVID-19 restrictions enabled them to secure new work and lift business activity in October. In both cases, the increases ended seven-month sequences of reduction. Moreover, optimism towards the year-ahead outlook for output strengthened. Still, there was another monthly decline in employment. On the price front, the rate of input cost inflation picked up to an eight-month high, but there was a softer rise in prices charged for the provision of services.

At 54.1 in October, up from 49.8 in September, the seasonally adjusted India Services Business Activity Index posted above the 50.0 no-change mark for the first time since February. The latest reading pointed to a solid rate of growth in output that was stronger than its long-run average. According to panel members, the upturn was supported by improved market conditions amid the loosening of COVID-19 restrictions.

Services companies reported an increase in new work intakes, which they attributed to successful marketing efforts and strengthening demand. The upturn in bookings was solid and ended a seven-month sequence of contraction.

Underlying data indicated that the domestic market was the key source of new business gains, as new orders from abroad declined further. The deterioration in international demand for Indian services was the slowest since March, but nevertheless sharper than any recorded prior to the COVID-19 outbreak.

Amid reports of workers on leave failing to return and difficulties in hiring staff due to the coronavirus disease 2019, services employment decreased again in October. The pace of job



Sources: IHS Markit, CSO.

shedding was solid and matched that recorded in September. Furthermore, payroll numbers contracted across the five monitored sub-sectors.

As a result of falling employment and rising orders, backlogs of work increased. Despite being solid, the overall rate of accumulation softened to a four-month low.

Meanwhile, hopes that a vaccine for COVID-19 will be rolled out underpinned positive sentiment toward the 12-month outlook for business activity. Confidence improved from September, when firms became upbeat for the first time in five months, but was subdued in the context of historical survey data.

Services companies continued to report rising expenses at the start of the third quarter of fiscal year 2020/21, taking the current sequence of cost inflation to four months. The latest increase was solid and the strongest since February. Panel members mentioned higher fuel, maintenance and material prices. Input costs increased in four of the five monitored categories, the exception being a stabilisation at Information & Communication firms.

Some service providers lifted their fees amid the pass-through of rising cost burdens to their clients, but the vast majority of firms left their prices unchanged from September. As a result, the overall rate of charge inflation was marginal and the slowest in the current three-month period of increases.

continued...

IHS Markit India Composite PMI®

Strong rise in private sector output as services activity rebounds

The Composite* PMI Output Index rose from 54.6 in September to 58.0 in October, signalling the strongest increase in private sector output in close to nine years. A sharp rise in factory production was accompanied by a return to growth of services activity.

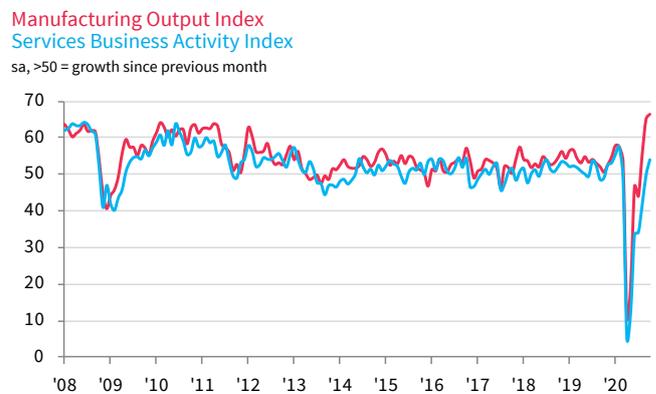
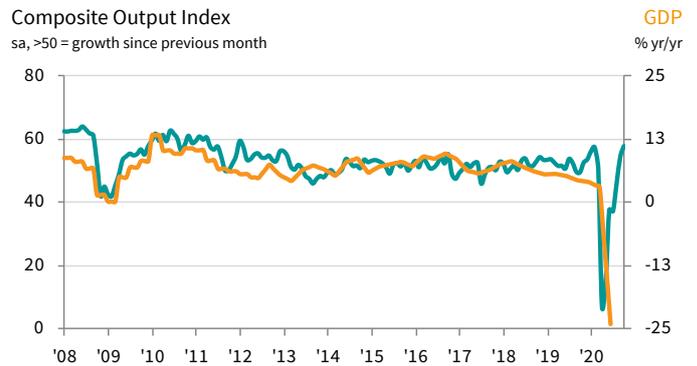
Aggregate new orders expanded for the second straight month in October, with the rate of growth accelerating to the highest since January 2013. New business at manufacturing firms increased at a quicker pace than at their services counterparts.

Companies in both the manufacturing and service sectors recorded lower payroll numbers at the start of the third quarter of fiscal year 2020/21. As a result, private sector employment declined for the eighth straight month.

Input cost inflation at the composite level reached an eight-month high, but output prices increased only marginally in October.

Finally, positive sentiment among private sector businesses strengthened to an eight-month high during October. Goods producers and service providers were more upbeat than 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, Economics Associate Director at IHS Markit, said:

"It's encouraging to see the Indian service sector joining its manufacturing counterpart and posting a recovery in economic conditions from the steep deteriorations caused by the COVID-19 pandemic earlier in the year.

"While a revival of the manufacturing industry began in August, only now the service sector started to heal. Service providers signalled solid expansions in new work and business activity during October. They were also more upbeat about the outlook, though hopes of output growth in the year ahead

were pinned on a COVID-19 vaccine.

"Service providers noted another decline in employment, but anecdotal evidence suggested that efforts to hire had been hampered by labour shortages. Survey participants indicated that workers on leave had not returned and that a widespread fear of COVID-19 contamination continued to restrict staff supply."

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

Data were collected 12-28 October 2020.

Survey data were first collected December 2005.

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