Sales and business activity contract in September

Key findings

New business inflows fall for first time in 19 months...

...dragging output into contraction

Service sector sentiment dips to 31-month low

September data showed outright contractions in new business intakes and output, as lacklustre client demand weighed on the performance of the Indian service economy. Concurrently, business confidence sank to its lowest level in 31 months, while job creation moderated.

The latest results also highlighted subdued inflationary pressures in the sector, with input costs rising at the slowest rate in over two-and-a-half years.

At 48.7 in September, the IHS Markit India Services Business Activity Index posted inside contraction territory for the first time in three months. The headline figure was down from 52.4 in August and fell to its lowest mark since February 2018. Panellists indicated that the downturn stemmed from weak demand, competitive pressures and challenging market conditions.

New work intakes contracted in September, following an 18-month sequence of expansion. Where a reduction was reported, firms mentioned subdued demand conditions, unfair pricing among competitors and economic woes.

Indian services companies were able to secure new work from external markets. The increase in international orders was the seventh in consecutive months, with growth accelerating from August.

Services firms signalled higher payroll numbers in September, with the current sequence of job creation extended to 25 months. That said, the pace of employment growth was marginal and softened to the slowest since June.

Still, the rise in headcounts was sufficient to enable service providers to lower their outstanding business. Backlogs fell for the first time in 40 months, but the rate of depletion was only marginal.

Amid reports of higher food, medicine and transport costs, input prices increased further. That said, the rate of inflation eased to the weakest in over two-and-a-half years and was negligible in the context of historical survey data. Anecdotal evidence suggested that lower fuel prices curbed the extent of the rise in average cost burdens.

Prices charged for the provision of services continued to increase in September. The rate of inflation was moderate and little-changed from August, but outpaced that seen for input costs.

September data indicated that positive sentiment among Indian service providers faded, although output growth in the year ahead was still predicted. Some firms expect to see an improvement in demand and favourable outcomes from marketing efforts, while others were worried that subdued economic conditions will linger. Overall, optimism dropped to a 31-month low.

Sub-sector data highlighted Finance & Insurance and Real Estate & Business Services as the key sources of service sector weakness in September. The latter posted sharp declines in business activity and sales. In the Finance & Insurance segment, growth of business activity stalled due to a contraction in new work. Meanwhile, Consumer Services was the best-performing sector, leading growth of output and new work.

continued...
IHS Markit India Composite PMI®

Private sector output contracts for first time in 19 months

Growth of Indian private sector activity came to a halt in September, ending a one-and-a-half-year sequence of expansion. The Composite* PMI Output Index fell from 52.6 in August to 49.8 in September, reflecting softer manufacturing production growth and an outright reduction in services activity.

Aggregate sales decreased for the first time in 19 months during September. As was the case for output, the fall in new orders was fractional. Services new business declined, while factory orders rose.

Private sector employment continued to rise, but the pace of expansion softened to a three-month low. Marginal increases were evident in the manufacturing and service categories.

Challenging economic conditions hampered business sentiment in September, with optimism down at goods producers and service providers alike. Aggregate confidence fell to a 31-month low.

*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:

“The bad news of a cooling manufacturing sector was compounded by an outright services downturn in September. As a result, private sector output in India contracted for the first time since February 2018. This reflected a decline in sales, albeit fractional, which restricted employment growth. Worryingly, business sentiment sank to a 31-month low.

“Policymakers will hope that monetary and fiscal stimuli can boost domestic demand as well as business investment, thereby restoring economic growth in the months to come. A drop in aggregate input cost inflation to its lowest in around three years raises the possibility of a further cut in the benchmark interest rate.

“When we look at the sub-sector data for the service sector, we can see diverging performances. Real Estate & Business Services and Finance & Insurance were the main sources of weakness, failing to record growth of new orders and output. The other three segments continued to expand, but at softer rates than in August. Once again, Consumer Services was the best-performing category in September.”
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 to ensure they are comparable with the seasonally adjusted data series.

September 2019 data were collected 12-26 September 2019.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

About PMI

Purchasing Managers' Index® (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to ihsmarkit.com/products/pmi.html.

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