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IHS Markit India Services PMI®

Including IHS Markit India Composite PMI®

Services activity and sales rise at quickest rates in seven years

Key findings

Sharper increases in new business and output

Job creation sustained

Cost inflation nears seven-year high

The Indian service sector started 2020 on a strong footing, with surging demand underpinning the fastest increases in new orders and output for seven years. As a result, job creation was sustained and business optimism maintained.

The uptick in growth was accompanied by an intensification of inflationary pressures, with input costs rising to the greatest extent since February 2013 and output charge inflation picking up to a near two-year high.

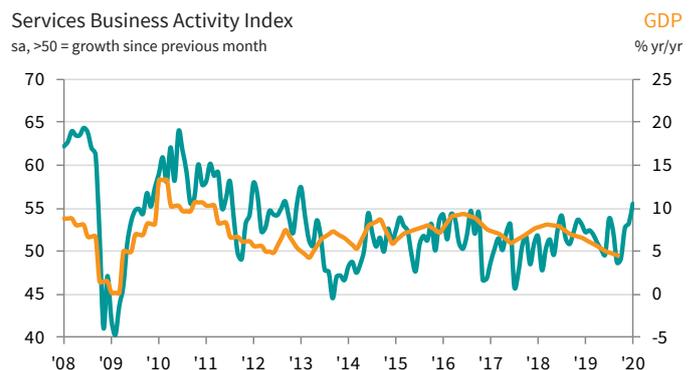
Rising from 53.3 in December to 55.5 in January, the IHS Markit India Services Business Activity Index signalled the strongest upturn in output for seven years. The rebound largely stemmed from favourable market conditions and better underlying demand, according to survey participants.

New work intakes also expanded to the greatest extent in seven years, with some service providers mentioning a positive outcome from marketing efforts.

As was the case for business activity, sales increased across the five monitored sub-sectors, and more markedly in Consumer Services.

Underlying data suggested that new orders were mainly generated domestically, as exports decreased at the start of the year. The fall ended a ten-month sequence of expansion, but was only slight. A number of panellists mentioned weaker demand from China, Europe and the US.

With new business growth ticking higher, services companies continued to add to their workforces. The rate of job creation was little-changed from December, thereby remaining above its long-run average.



Sources: IHS Markit, CSO.

Employment increased in all but one sub-sector tracked by the survey, the sole exception being Finance & Insurance.

Despite expanded capacities, and in line with strong influxes of new business, outstanding business at services firms continued to rise at the start of 2020. The rate of accumulation was, however, only slight. Some companies commented on shortages of materials and delayed client payments when explaining the increase in backlogs of work.

Amid reports of higher prices for beauty products, food, freight, fuel and maintenance, services firms' expenses increased further during January. The overall rate of cost inflation was sharp and the fastest in close to seven years.

Subsequently, a number of services companies lifted their own selling prices in January. The rate of charge inflation picked up to the fastest since February 2018, but matched its long-run average.

The Consumer Services category recorded by far the steepest increase in input costs, but charge inflation was most pronounced among Transport & Storage companies.

Indian services firms expect further improvements in demand, advertising and the approval of pending projects to support growth of business activity over the coming 12 months. The overall degree of optimism was similar to December's four-month high, remaining below its long-run average.

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IHS Markit India Composite PMI®

Surge in demand pushes output growth to seven-year high

January data showed that growth of private sector activity moved up a gear, amid broad-based accelerations across manufacturing and services. The Composite* PMI Output Index increased from 53.7 in December to a seven-year high of 56.3 in January.

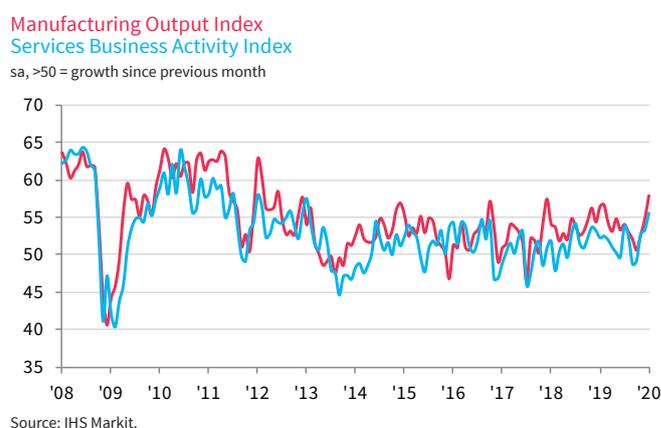
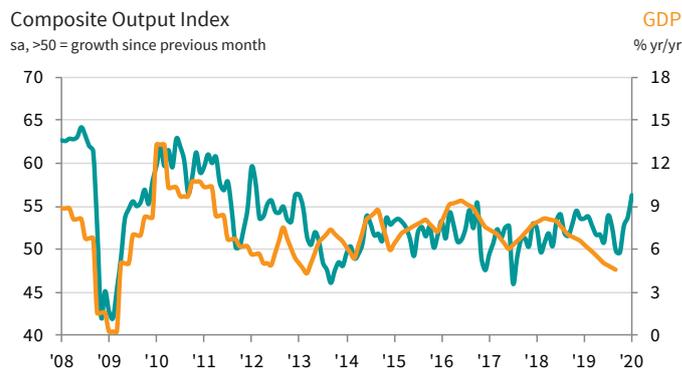
The main factor boosting growth was a sudden wave of new business. Aggregate sales rose at the sharpest pace since January 2013, with quicker increases evident at goods producers and service providers.

Hiring activity was extended to January and the pace of job creation hit a six-month high. Manufacturing firms signalled a stronger rate of employment growth than their services counterparts.

Meanwhile, rates of input cost and output charge inflation in the private sector accelerated to 66- and 30-month highs respectively.

Finally, overall business sentiment towards the year-ahead outlook for output strengthened in January.

**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 Indian service sector sprung to life at the start of 2020, defying expectations of fragility and building on to the momentum gained at the end of 2019. Strong domestic demand led to expansions in new business and output not seen for seven years.

"With business revenues rising, service providers continued to increase capacity to meet further strong growth in sales.

This is good news for jobseekers, particularly when we consider the results from the manufacturing industry which showed the steepest upturn in employment since August 2012.

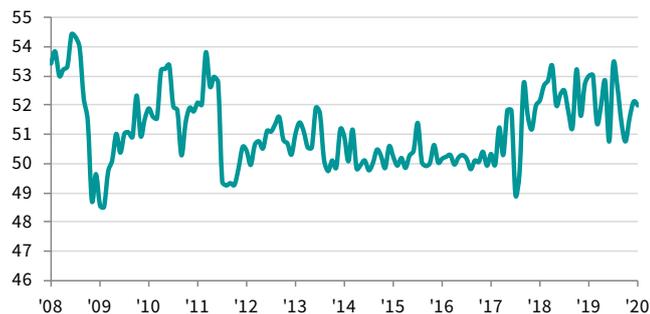
"One worrying development, however, was the trend for inflation. The service survey pointed to the sharpest increase in input prices in just under seven years, with companies mostly absorbing the added cost burdens themselves instead of fully passing these on to their customers.

"This may translate into quicker

increases in selling prices in months to come, which may curb sales. Firms could also choose to restrict hiring in order to protect profit margins."

Services Employment Index

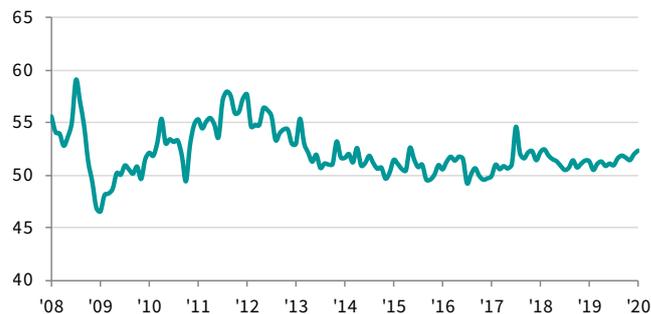
sa, >50 = growth since previous month



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

January data were collected 13-29 January 2020.

Survey data were first collected December 2005.

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