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# IHS Markit India Services PMI®

Including IHS Markit India Composite PMI®

## Services activity downturn eases markedly in August

### Key findings

Activity and new orders fall at slower rates

Output charges increase for the first time since March

Record increase in backlogs of work

August data were collected 12-26 August 2020.

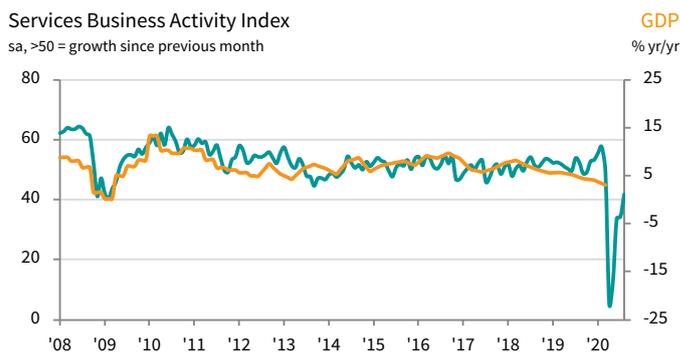
Latest PMI data indicated a slower rate of decline in business activity across the Indian service sector during August. The ongoing coronavirus pandemic 2019 (COVID-19) restrictions continued to adversely impact client demand and business operations. New business and output continued to contract at marked rates, albeit slower than the records seen in April and May. Restrictions also contributed to a record increase in outstanding business. Meanwhile, sustained revenue losses through the second quarter and increasing cost burdens led companies to raise charges for the first time since March.

The seasonally adjusted India Services Business Activity Index rose sharply from 34.2 in July to 41.8 in August, the highest since March, before the escalation of the global COVID-19 pandemic. Nevertheless, the latest reading, by coming in below the 50.0 neutral value again, indicated a continued decline in business activity.

According to respondents, the fall in output was linked to a further weakening of demand conditions during August, while some businesses remained closed as a result of ongoing lockdown restrictions. The rate of contraction in output was solid overall, despite easing from the previous survey period as some firms gradually resumed operations.

New business placed at Indian service providers fell for the sixth month running in August amid weak market demand. That said, the rate of decline was the slowest in five months.

Similarly, new export orders received by Indian service providers fell at a solid pace. The rate of contraction was among the steepest since the start of the series in September 2014 and was



Sources: IHS Markit, CSO.

surpassed only by the unprecedented lows seen earlier in the current period of decline.

Reduced business activity saw the Indian service sector operating below capacity. As a result, firms reported job shedding for a sixth consecutive month. The fall in employment was only modest, however, and much slower than July's record. Ongoing COVID-19 restrictions and temporary business closures meant that firms were unable to process previously-placed orders, which led to incomplete work increasing for a third month running. Moreover, the pace of increase was substantial, and the fastest since the survey began in December 2005.

On the price front, service providers reported increased cost burdens for the second month running. The rate of input price inflation was slightly faster than seen in July, but marginal overall. Higher fuel costs were cited as the key reason behind higher input prices. In line with rising cost burdens, output charges grew at a marginal pace. Firms mentioned the passing on of higher costs to customers. Some firms mentioned the impact of COVID-19 on revenues, which also encouraged companies to raise prices.

Looking ahead, sentiment was neutral in August. Two-thirds of panellists expected output in the year ahead to remain unchanged on current levels. While some firms hoped for the passing of COVID-19, others noted market uncertainty and expectations of extended lockdown measures to weigh on future activity.

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## IHS Markit India Composite PMI®

### Private sector output falls at a softer pace in August

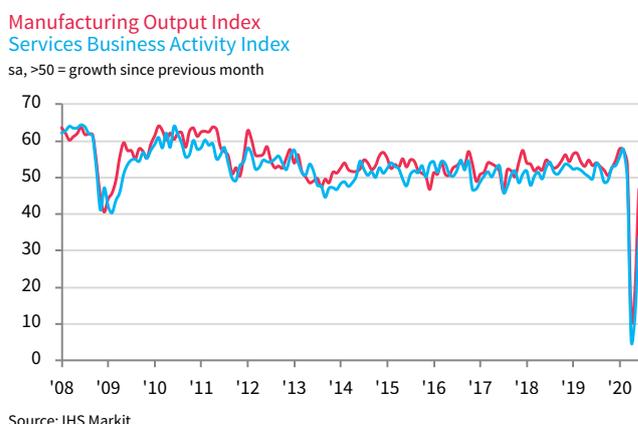
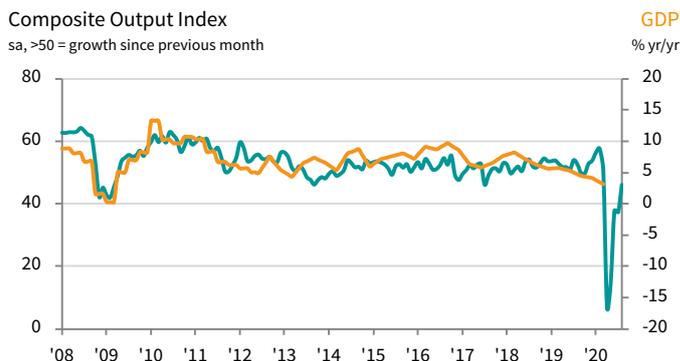
The Composite\* PMI Output Index, which measures combined services and manufacturing output, rose from 37.2 in July to 46.0 in August, and remained below the neutral 50.0 level, thereby signalling a fifth consecutive decline in private sector business activity. The latest figure was indicative of the slowest pace of contraction in the current period of decline, however.

The overall decline was centred on the service sector as manufacturing production increased for the first time in five months. Similar trends were evident for new orders, with growth in manufacturing partially offset a further reduction in services.

Aggregate employment fell further during August, albeit at a slower pace. Meanwhile, backlogs of work increased at the sharpest pace on record amid marked accumulations across both monitored sectors.

Input prices increased for the first time in five months, feeding through to a return to output charge inflation. In both cases, rates of increase were modest.

*\*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, Shreeya Patel, Economist at IHS Markit, said:

"August highlights another month of challenging operating conditions in the Indian services sector. Sustained periods of closure and ongoing lockdown restrictions in both domestic and foreign markets have weighed heavily on the health of the industry. Output and new work continue to fall at solid rates, while restrictions

meant that firms were often unable to complete projects. Backlogs of work accumulated to the greatest extent in almost 15 years of data collection.

That said, the survey showed signs of a potential recovery. Business sentiment was neutral after being negative in the previous three months and employment fell at the softest pace since March. Additionally, there were efforts to protect profit margins, firms raised their selling prices to pass on higher expenses to customers and recover

lost revenues after a period of closure."

Services Employment Index

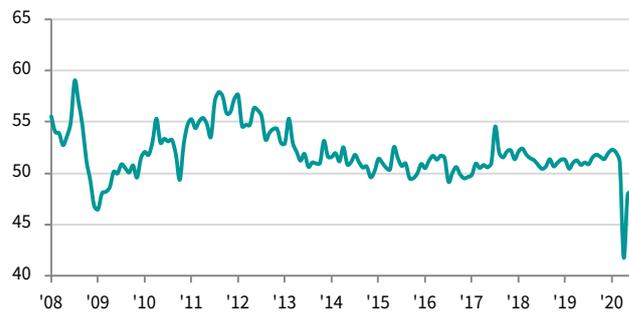
sa, >50 = growth since previous month



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](mailto:economics@ihsmarkit.com).

August data were collected 12-26 August 2020.

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