Indian service providers signalled that their subdued business performance at the end of the first quarter of fiscal year 2019/2020 dissipated in July, with activity returning to growth and new work intakes rising at the fastest rate in just under three years. Moreover, job creation picked up to the strongest since early-2011 in response to strengthening demand conditions and upbeat predictions for the economic outlook.

Another positive development in July included the continuation of subdued input cost inflation. This led to only a marginal increase in output prices over the month.

Rising from 49.6 in June to 53.8 in July, the IHS Markit India Services Business Activity Index pointed to the quickest increase in output in one year. Four of the five monitored sub-sectors posted expansion, the sole exception being Real Estate & Business Services.

Survey respondents overwhelmingly linked the upturn in business activity to a promising government budget, strengthening demand and new client wins.

Not only did new work intakes rise for the seventeenth straight month, but also to the greatest extent since October 2016. Anecdotal evidence suggested that new business had been secured from the public and private sectors, as well as domestic and international markets.

Indeed, new export work rose for the fifth straight month in July. Moreover, the pace of growth was marked and the fastest since this measure was introduced to the survey in September 2014.

Additional pressure on operating capacity and positive growth projections contributed to a stronger expansion in employment. The latest rise in staffing levels was the quickest recorded for almost eight-and-a-half years. Finance & Insurance posted the fastest increase in jobs, while Real Estate & Business Services was the only category to register lower payroll numbers.

Meanwhile, unfinished business across the Indian service sector increased at the slowest pace in 2019 so far. The rise was marginal and broadly in line with the long-run series average.

Higher fuel and raw material prices were cited as key factors pushing up cost burdens in July. Despite accelerating to a five-month high, the overall rate of inflation remained modest and below the historical average. Close to 93% of service providers reported unchanged expenses.

With only a negligible proportion of companies increasing their selling prices in July, the overall rate of charge inflation was marginal and the joint-slowest in five months.

July data indicated an improvement in business optimism across the service economy, after sentiment had faded to a four-month low in June. According to survey participants, concerns about uncertain public policies had diminished. Companies also expect advertising efforts and strengthening market conditions to support growth in the coming 12-month period.

continued...
Private sector output rises at quickest rate in eight months

The Indian private sector economy benefited from stronger manufacturing and services performances during July. Solid growth of business activity across both categories pushed the Composite* PMI Output Index to an eight-month high of 53.9 (June: 50.8).

Aggregate new orders increased to the greatest extent since last November, with rates of expansion picking up in the manufacturing and service sectors.

Job creation across the combined manufacturing and service sectors hit a five-month high during July. Services companies posted a much stronger rate of expansion than their manufacturing counterparts.

Input price inflation at the composite level accelerated to a five-month high, amid a stronger rise in the service sector, but the upturn was weak by historical standards. Aggregate output charges rose only marginally.

*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:

"India’s service economy showed renewed vigour in July as businesses and households welcome the recent government budget announcement. PMI data indicated that the strongest upturn in new work for nearly three years led to a rebound in business activity.

"Encouragingly, service providers reported a widespread improvement in demand, from the public and private sectors as well as domestic and international markets. Growth of export orders hit a series peak.

"These favourable results from the service sector were accompanied by improved momentum among goods producers, which combined showed the sharpest rise in output for eight months. The ground gained in services during July meant that the gap in the performance of the two monitored sectors was the narrowest in one year.

"India’s labour market continues to go from strength-to-strength, with the pace of service sector job creation the highest in over eight years. Ongoing expansions in the employment base should support household spending and consumer confidence in the near-term."

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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 as appropriate which will affect the seasonally adjusted data series.

July 2019 data were collected 12-29 July 2019.

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

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