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IHS Markit India Services PMI®

Including IHS Markit India Composite PMI®

Service sector growth extends into new year

Key findings

New business and activity expand for fourth month running

Softer increase in input costs supports price discounting

Business confidence hits 11-month high

Data were collected 12-27 January 2021.

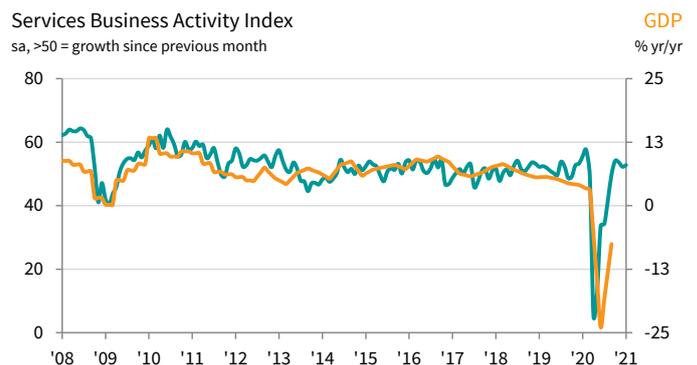
The Indian service sector continued to expand in January, with growth of new work and business activity quickening since December. Moreover, the launch of the coronavirus disease 2019 (COVID-19) vaccine program boosted optimism towards the 12-month outlook for output. However, employment declined further, while exports contracted sharply. On the price front, there was a slower rise in input costs and prices charged for the provision of services decreased again.

The seasonally adjusted India Services Business Activity Index rose from 52.3 in December to 52.8 in January, pointing to a quicker expansion in output. Still, the headline figure remained below its long-run average of 53.3 and was consistent with a moderate pace of growth. Companies that reported higher business activity commented on greater client numbers and improved demand conditions.

New business rose in January, marking a four-month period of expansion. The pace of growth was moderate, but accelerated from December. According to panellists, marketing efforts, the reopening of some establishments and strengthening demand all supported the increase in sales.

Underlying data indicated that the rise in new business was centred on the domestic market, as new export work decreased further. The pace of contraction remained sharp, despite easing to the slowest since last March. Survey participants indicated that travel restrictions and the COVID-19 pandemic dampened international demand for services.

Growth of total new orders was helped by ongoing price discounting strategies. Companies that lowered their fees



Sources: IHS Markit, CSO.

mentioned efforts to beat competition and attract new customers. The overall rate of decreased was marginal, however.

Input costs increased for the seventh straight month at the start of 2021, with monitored companies reporting higher prices for fuel and a wide range of materials. Although weaker than in December, the rate of cost inflation was marked in the context of historical data.

Looking ahead, service providers were confident of a rise in output in the coming 12 months. Positive sentiment was supported by beliefs that the roll-out of COVID-19 vaccines would underpin demand growth and improvements in the wider economy. The overall degree of optimism was at an 11-month high.

Firms signalled mild capacity pressures in January. Outstanding business rose for the eighth month in succession, but at the slowest rate since mid-2020.

Finally, there were back-to-back declines in service sector employment. The pace of job shedding was, however, marginal and unchanged from December. The vast majority of survey members (97%) indicated no change in payroll numbers since the preceding survey period.

Transport & Storage and Consumer Services were the brightest spots in January, where business activity and new orders continued to increase. The weakest link was Information & Communication, where sharp falls in sales and output were noted.

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IHS Markit India Composite PMI®

Private sector activity growth quickens in January

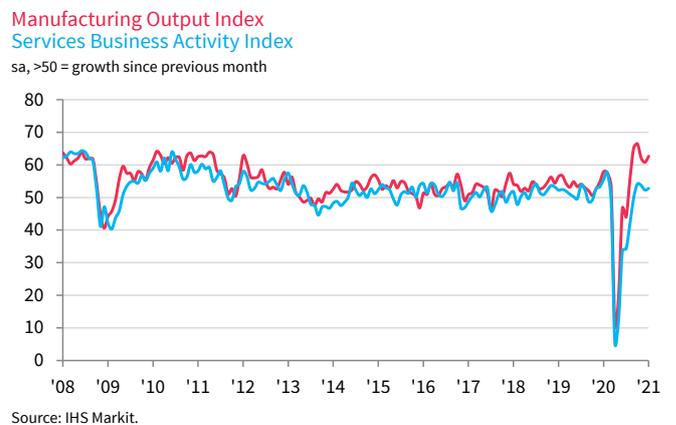
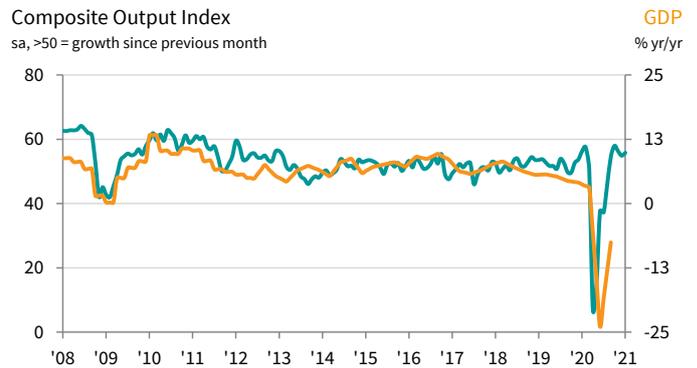
Business activity across the private sector expanded at a marked and accelerated pace at the start of 2021, with growth picking up among manufacturers and service providers. The Composite* PMI Output Index edged up to 55.8 in January, from 54.9 in December, thereby remaining above its long-run average of 53.9.

Private sector companies noted a fifth consecutive monthly rise in new business intakes, with the rate of expansion quickening to the strongest since last October. Growth accelerated at goods producers and services firms, with the former leading the upturn.

January data highlighted a broad-based decline in employment across the manufacturing and service categories. Private sector jobs fell for the eleventh straight month, albeit at a slight pace.

The rate of input cost inflation at the composite level was little-changed since December, thereby remaining elevated by historical standards. Aggregate output prices rose in January, after being broadly unchanged in the prior survey period.

**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:

"The Indian service sector enjoyed good levels of activity in January, with new business volumes rising for the fourth successive month and growth rates for both measures picking up from December.

"The main area of concern is the extent to which costs are rising across the services economy, with the rate of inflation remaining above trend despite easing from December. There are signs that higher costs are preventing firms from taking on additional staff, with the PMI survey showing a second successive fall in employment.

"But, with business optimism rising to an 11-month high in light of the new COVID-19 immunisation program, the service sector looks set to sustain growth and confidence towards hiring may improve as COVID-19 concerns diminish.

"When we combine the results for the service sector with those for manufacturing, the picture for the Indian economy looks brighter. Across the private sector, output and new orders rose markedly and at rates that surpassed their respective long-run averages."

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 12-27 January 2021.

Survey data were first collected December 2005.

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