The Indian service sector remained severely restricted by lockdown measures implemented to curb the coronavirus disease 2019 (COVID-19) pandemic in July, according to the latest PMI survey data. Further substantial reductions in both activity and inflows of new work were recorded, as ongoing lockdown restrictions stifled demand and forced companies to cease operations. Subsequently, firms made further cuts to staff numbers, with the rate of job shedding the most marked on record. Looking ahead, the 12-month outlook for output was negative for a third successive month, with fears of a substantial economic downturn common among survey respondents.

The IHS Markit India Services Business Activity Index registered 34.2 in July, and despite rising slightly from 33.7 in June, signalled a further rapid reduction in service sector output. Moreover, the latest reading was among the lowest recorded in nearly 15 years of data collection, surpassed only by the unprecedented falls in the previous three months.

Central to the ongoing downturn was a further drop in sales. Total new business declined for a fifth successive month, with the rate of contraction little changed from June and remaining severe. Survey respondents linked falls in both activity and order books to the adverse impact stemming from the COVID-19 pandemic, with frequent mentions of lockdown measures, weak demand conditions and the temporary suspension of company operations.

Faring worse still was foreign demand for Indian services, with the respective seasonally adjusted index posting well below the 50.0 mark in July for the fifth month running and signalling a substantial reduction in foreign demand. The latest decline in new export orders was steeper than that for total new business, but the least severe since March.

With overall demand conditions severely muted, service providers made further job cuts in July. The rate of job shedding was the fastest on record, with panellists blaming weak client demand and temporary business closures. With capacity being restricted further, firms struggled to process backlogs in July. The level of outstanding business rose again, with the rate of expansion the quickest since October 2017.

Services firms remained pessimistic with regards to activity over the year ahead for a third consecutive month in July, with the proportion of survey respondents expecting a decline in activity levels outweighing those anticipating a rise. Negative sentiment was linked to substantial uncertainty, lockdown measures and expectations of a severe economic recession.

On the price front, input costs increased for the first time since March amid reports of greater fuel and cargo costs alongside higher fees charged by suppliers. Fierce competition for the relatively little new work available continued to put downward pressure on selling prices, however.

Average charges levied by Indian services firms fell for the fourth consecutive month, with the rate of deflation accelerating to a solid pace.

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The Composite* PMI Output Index, which measures combined services and manufacturing output, signalled a further rapid contraction in private sector business activity in July. Falling from 37.8 in June to 37.2, the latest figure was indicative of a quicker rate of contraction, albeit not as severe as those in April and May.

Services again registered the sharper decline, although both sectors saw the fall ease from June.

Central to the overall contraction was a further marked drop in new orders, with the rate of decline unchanged from June. The downturn in sales was again led by the service sector, although order books at manufacturers fell at an accelerated pace.

With demand conditions heavily subdued, Indian firms made further job cuts in July, with the rate of job shedding the quickest on record. Looking ahead, the 12-month outlook for activity remained pessimistic for a third successive month.

*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.

Commenting on the latest survey results, Lewis Cooper, Economist at IHS Markit, said:

"The coronavirus pandemic and subsequent introduction of "lockdown" measures continued to weigh heavily on the Indian service sector in July. Business activity and new orders dropped again, with the rates of decline remaining rapid overall. Panellists frequently reported temporary company closures and weak demand as a result of the pandemic.

"With demand severely restricted, July data highlighted another round of job cuts, with the latest reduction the most marked on record, while firms’ output expectations in the year ahead remained pessimistic. "July data, as a whole, provide no real signs that the downturn is slowing down. That’s not surprising with lockdown measures still in force, but undoubtedly these will have to be loosened and companies reopen before the sector can move towards stabilisation. With such a prolonged and significant downturn, any substantial recovery will take many months, if not years. Latest IHS Markit estimates point to an annual contraction in GDP of over 6% in the year ending March 2021."
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 estates 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.

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

Survey dates and history

July data were collected 13-29 July 2020.

Survey data were first collected December 2005.

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