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# IHS Markit India Services PMI®

Including IHS Markit India Composite PMI®

## COVID-19 resurgence pushes service sector into contraction

### Key findings

Output falls for first time in eight months...

...amid renewed decline in new work intakes

COVID-19 concerns dampen business confidence

Data were collected 12-27 May 2021.

PMI® data indicated that Indian service providers struggled in May, with the intensification of the COVID-19 crisis causing renewed declines in new business and output. Firms became increasingly worried about growth prospects, with positive sentiment slipping to a nine-month low. Jobs were shed to the greatest extent since last October.

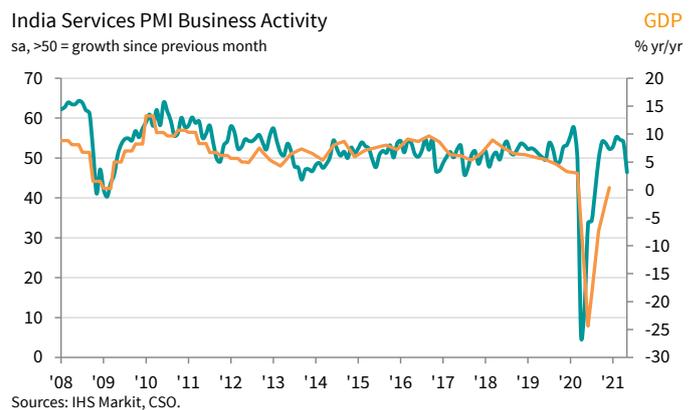
Cost inflationary pressures cooled, but remained sharp by historical standards, with the latest rise the slowest since January. Selling prices meanwhile increased only slightly as several companies left their fees unchanged due to subdued demand conditions.

At 46.4 in May, down from 54.0 in April, the seasonally adjusted India Services Business Activity Index was in contraction territory for the first time in eight months. The latest reading pointed to a solid rate of reduction that was nevertheless slower than those seen in the aftermath of the COVID-19 outbreak. According to panel members, the fall in output stemmed from the escalation of the pandemic and the reintroduction of restrictions.

Growth of new work intakes ground to a halt in May, with companies noting the first decline in sales since September 2020. Survey participants indicated that demand was dampened by the intensification of the COVID-19 crisis.

International demand for Indian services also worsened, with new export business falling at the quickest rate in six months. The drop was attributed to international travel restrictions and business closures.

Although service providers foresee activity growth over the



course of the coming 12 months, the overall degree of optimism weakened to the lowest since August 2020. Anecdotal evidence indicated that the resurgence in COVID-19 cases and lingering restrictions were the key factors dampening confidence.

Pandemic-related worries and falling sales led services companies to reduce workforce numbers again during May. The decline was modest, but the quickest in the current six-month sequence of job shedding.

Service providers noted a further increase in outstanding business volumes midway through the opening quarter of fiscal year 2021/22. The pace of accumulation was moderate, however, and little-changed from April.

Amid reports of higher prices for a wide range of inputs and fuel, operating expenses at services firms continued to increase in May. The rate of inflation remained sharp and above its long-run average, despite slowing to the weakest since January.

Some companies opted to pass on to their clients part of the additional cost burden via upward revisions to selling prices. The overall rate of charge inflation was only slight, however, as the vast majority of survey participants kept their fees unchanged from April.

Real Estate & Business Services was the worst-affected segment out of the five monitored categories, recording the quickest declines in both new business and output. On the other side of the spectrum was Transport & Storage, where substantial increases in activity and sales were registered.

*continued...*

## IHS Markit India Composite PMI®

### Private sector activity falls amid renewed contraction in services

May data pointed to a renewed decline in private sector activity across India as the service economy dipped back into contraction. The Composite\* PMI Output Index was down from 55.4 in April to 48.1, a reading indicative of a moderate pace of reduction. Although manufacturing production growth was sustained, the increase was the slowest in the current ten-month sequence of expansion.

Aggregate new orders decreased for the first time in nine months, albeit at a moderate pace. The downturn was centred on the service sector, with factory sales rising only marginally at manufacturers in May.

There was a broad-based decline in employment among goods producers and services companies. As a result, private sector jobs fell for the fifteenth month in succession. The rate of reduction was modest, but the quickest since last October.

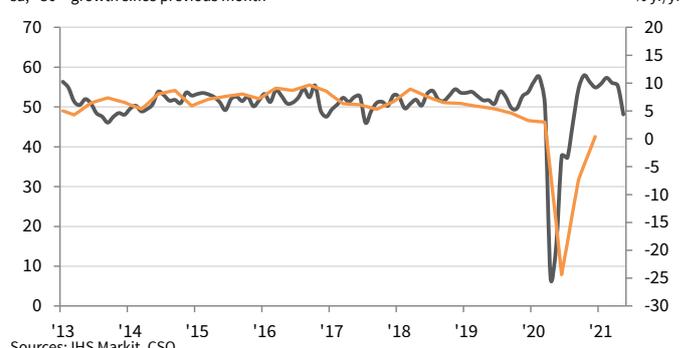
The rate of input cost inflation at the composite level eased to a four-month low in May, with slower increases noted at manufacturing firms and their services counterparts.

Aggregate selling prices rose moderately and at a rate that was similar to April's. The quicker rate of charge inflation was seen in the manufacturing industry.

\*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.

India Composite PMI Output Index

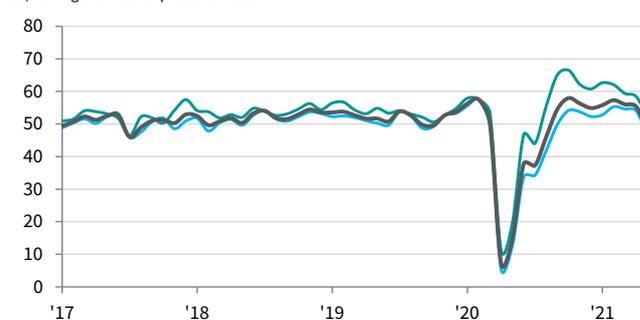
sa, >50 = growth since previous month



Composite Output Index

Manufacturing Output Index  
Services Business Activity Index

sa, >50 = growth since previous month



## Comment

Commenting on the latest survey results, Pollyanna De Lima, Economics Associate Director at IHS Markit, said:

"While PMI data released at the start of the month showed that the manufacturing industry managed to keep its head above water in May, the service sector struggled as the pandemic escalated.

"The intensification of the COVID-19 crisis and associated restrictions suppressed domestic and international demand for Indian services. Total sales decreased for the first time in eight months, while

the fall in external orders was the most pronounced since last November.

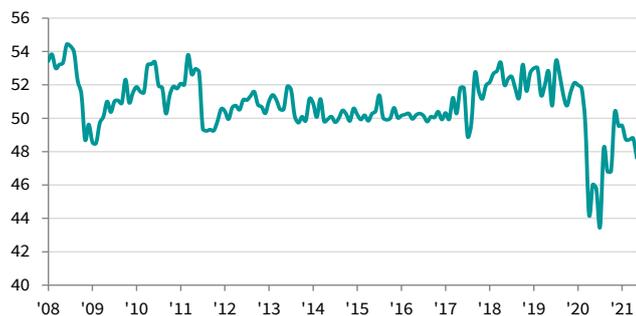
"Amid efforts to keep a lid on expenses given the deterioration in new business, services companies reduced payroll numbers to the greatest extent in seven months. Concerns towards the outlook, evidenced by a dip in sentiment, could prevent job creation in the near-term.

"Anecdotal evidence indicated that a fall in staff expenses indeed helped curb the rate of input price inflation. Yet, the overall rise in cost burdens was historically

sharp as prices for a wide range of inputs and fuel continued to surge. Only a small proportion of firms shared additional cost burdens with their clients, resulting in only a marginal increase in services fees."

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).

### Survey dates and history

Data were collected 12-27 May 2021.

Survey data were first collected December 2005.

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Purchasing Managers' Index® (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends.

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