Indian manufacturers see another sharp deterioration in business conditions

Key findings

Output and new orders continue to plummet
Rate of job shedding accelerates
Business sentiment remains subdued

Amid the ongoing coronavirus lockdown, Indian manufacturers recorded another sharp deterioration in business conditions during May. Weaker demand drove output lower following April's record decline. Consequently, firms cut staff numbers at the quickest pace since data collection began over 15 years ago.

At 30.8 in May, the seasonally adjusted IHS Markit India Manufacturing PMI® rose from 27.4 in April. The latest reading pointed to another substantial decline in the health of the Indian manufacturing sector, albeit one that was slightly softer than recorded in April.

In a sign of further demand weakness, new orders placed with goods producers continued to fall after April's record contraction. The rate of decline decelerated but was still the second-fastest since the series' inception in March 2005. Panellists often mentioned prolonged closures at their clients when explaining the latest reduction in sales.

Weak demand from international markets added to the deteriorating sales trend, with new business from abroad plunging further in May. Anecdotal evidence suggested that global measures to stem the spread of COVID-19 continued to stifle exports.

Faced with a further deterioration in demand conditions, firms continued to cut back production midway through the second quarter. The reduction was slower than April's unprecedented decline, but still severe overall.

Lower production requirements saw Indian manufacturers continue to reduce worker numbers in May. Moreover, the rate of workforce contraction accelerated to the fastest in the survey's history, eclipsing the previous record set in April.

Similarly, goods producers needed fewer physical inputs in May and subsequently pared back their purchasing activity. The pace of decline was softer than in April, but remained historically marked.

Comment

Commenting on the latest survey results, Eliot Kerr, Economist at IHS Markit, said:

"The latest PMI data suggested that Indian manufacturing output fell further in May. This result is particularly poignant given the record contraction in April which was driven by widespread business closures. The further reduction in May highlights the challenges that businesses might face in the recovery from this crisis, with demand remaining subdued while the longevity of the pandemic remains uncertain."
Meanwhile, input prices faced by Indian manufacturers continued to fall. Though solid overall, the rate of reduction eased considerably from April’s record. Panel members often mentioned that their suppliers had cut prices in an attempt to secure orders.

Firms opted to pass on lower costs to their clients, with another decrease in average output charges during May. In line with the trend for input prices, the latest reduction was far softer than that recorded in April.

Finally, Indian manufacturers remained optimistic towards the one-year business outlook in May. Confidence was supported by expectations for a return to growth once all coronavirus-related restrictions are lifted. That said, the degree of positivity eased slightly from April and remained historically subdued.

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