Nikkei India Services PMI® (with Composite PMI data)

Indian service sector growth picks up in January

Key points:

- Fastest rise in activity for three months
- New business growth sharpest since June 2017
- Second-fastest rise in jobs in over six-and-a-half years

Data collected January 12-29

The Indian service sector remained in expansion mode in January, driven by a renewed increase in new business. Growth rates for activity and employment accelerated since December, but remained weaker than their respective long-run survey averages. Having been the strongest in four years in November, input price inflation stabilised at a relatively weak level in January, while businesses increased their charges at a slightly faster rate.

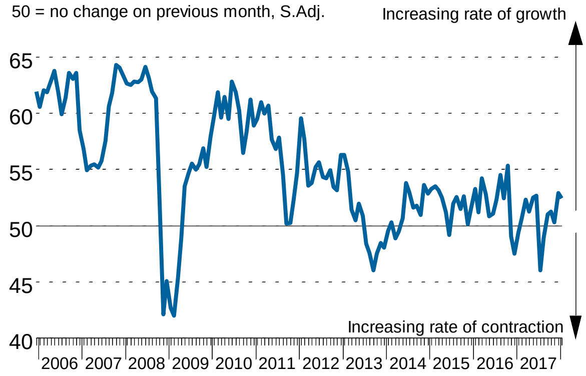
The seasonally adjusted **Nikkei Services Business Activity Index** remained above the neutral mark of 50.0 in January, signalling a further increase in activity at the start of 2018. The latest figure of 51.7, up from 50.9 in December, signalled a faster expansion albeit one that remained below the long-run survey average. The Information & Communication sub-sector continued to drive overall growth in the latest period.

As manufacturing production growth eased from December's 60-month high, the **Nikkei Composite Output Index** fell to 52.5 in January from 53.0. Overall, this was consistent with a modest improvement in operating conditions across the private sector as a whole.

Having been unchanged in December, the volume of new business received by Indian service sector companies rose in January. The pace of expansion was the sharpest since last June, but below the trend level since the series began in December 2005.

Meanwhile, new orders rose for the third consecutive month at manufacturing companies. The rate of growth was solid despite easing from January's 14-month high.

Nikkei India Composite Output PMI



Sources: Nikkei, IHS Markit.

The latest survey data signalled that capacity constraints remained evident across both the manufacturing and service sectors, as the volume of outstanding business rose for the twentieth successive month. Higher backlogs partly reflected delayed customer payments for orders.

Indian service providers addressed new business inflows and rising backlogs by expanding workforces for the fifth month running in January. Moreover, the rate of job creation was the fastest since last September.

Reflecting improved demand conditions, manufacturers raised their payroll numbers for the sixth consecutive during January. Job creation slowed to the weakest since last October, but remained above the series trend.

Service sector input price inflation stabilised at a moderate pace in January, remaining below the long-run survey average. That said, costs rose sufficiently to generate another increase in prices charged by service providers, with those in the Information & Communication sector registering the strongest inflation of charges.

Indian manufacturers registered a further marked increase in their average cost burdens during January. Subsequently, manufacturing companies reportedly raised their output charges to pass on higher input costs to consumers.

Service sector companies in India remained optimistic regarding expected activity levels in 12 months' time. Sentiment eased to a three-month low but was solid overall. Reflecting the trends for activity and new business, Information & Communication was the most optimistic sub-sector in January.

As was the case with the service sector, firms retained positive projections for output over the next 12 months, but the level of confidence remained weak by historical standards.

Comment:

Commenting on the Indian Services PMI survey data, **Aashna Dodhia**, Economist at IHS Markit, and author of the report, said**:**

"The recovery across India's service sector continued during January, with growth in output picking up to the joint-strongest since June 2017 as underlying demand conditions improved. That said, the overall performance of the service sector remained weaker than the long-run growth trend.

"Input cost inflation across the service sector remained weak by historical standards, although service providers were able to pass on a greater proportion of cost burdens to customers.

"Meanwhile, job creation accelerated to the second-strongest in over six-and-a-half years, but, as firms struggled in receiving timely payments, the Goods and Services Tax (GST) continued to be a key constraint to businesses and the service sector remained a laggard relative to its manufacturing counterpart."

-Ends-

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Notes to Editors:

The Nikkei India Services PMI® is based on data compiled from monthly replies to questionnaires sent to purchasing executives in around 400 private service sector companies. The panel has been carefully selected to accurately replicate the true structure of the services economy.

The Nikkei India Composite PMI® is a weighted average of the Manufacturing Output Index and the Services Business Activity Index, and is based on original survey data collected from a representative panel of around 800 companies based in the Indian manufacturing and service sectors.

Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'. Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

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IHS Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from IHS Markit. Please contact economics@ihsmarkit.com.

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