

## Nikkei India Services PMI<sup>®</sup> (with Composite PMI data)

### Indian service sector ends Q1 with strong expansion

#### Key points:

- Growth of new business and activity fastest in current five-month sequences of expansion
- Rate of increase in headcounts matches May's 47-month high
- Input costs and output charges rise at quicker rates

Data collected June 12-28

Business conditions in India's service sector continued to improve in June as a solid and accelerated upturn in new work resulted in a faster increase in activity. Moreover, job creation was maintained at May's 47-month record pace. Meanwhile, inflationary pressures gathered speed, with both input costs and output charges rising at quicker rates.

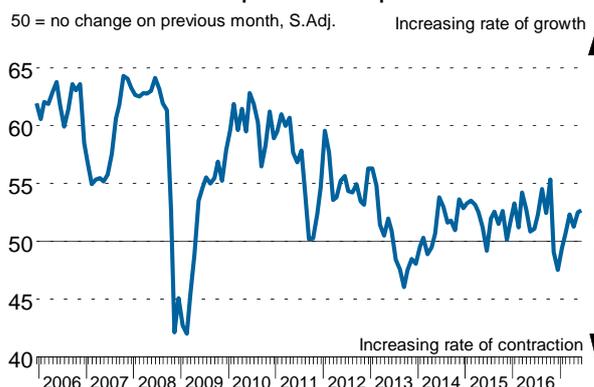
Up from 52.2 in May to an eight-month high of 53.1 in June, the seasonally adjusted **Nikkei India Services PMI Business Activity Index** signalled a solid and accelerated upturn in output across the sector. Additionally, the headline measure averaged 51.8 for the first quarter of the 2017 financial year, the highest quarterly figure since Q2 (FY) 2016.

In contrast to the trend for services, manufacturing lost growth momentum in June, with the upturn in production moderating for the third month in a row to the weakest since February. Across the private sector as a whole, however, the upward trend in the rate of expansion for activity was sustained. The seasonally adjusted **Nikkei India Composite PMI Output Index** rose from 52.5 in May to an eight-month high of 52.7.

Boosting growth of services activity in June was a solid and stronger upswing in inflows of new business. According to survey participants, improved demand conditions and marketing efforts enabled them to secure new work. Factory orders also rose, but to the least extent in four months.

Greater workplace activity encouraged some services companies to recruit more staff. Employment across the sector as whole rose modestly, but at a rate that equalled May's near

Nikkei India Composite Output PMI



Sources: Nikkei, IHS Markit.

four-year peak. By comparison, manufacturing jobs increased fractionally.

Amid reports of higher prices paid for food and fuel, average cost burdens at services firms increased further in June. The rate of inflation picked up to a three-month high, but remained below its long-run average and was only slight. Concurrently, purchase costs faced by manufacturers rose at the slowest rate since last August.

Service providers signalled higher selling prices (on average) in June. The rate of charge inflation was the joint-quickest in one year, on par with that seen in February, though marginal overall. In many cases, survey members reported the pass through of greater cost burdens to clients. Factory gate charges were also raised at a quicker, though marginal, pace.

Reflecting difficulties in obtaining payments from clients, outstanding business at service providers continued to rise. Nevertheless, the rate of backlog accumulation softened to the slowest in the current 13-month sequence of expansion. A weaker increase in work-in-progress was similarly noted at goods producers.

Output is expected by services firms to remain on an upward trajectory in the coming 12 months. Optimism was attributed by panellists to better market conditions, the introduction of the goods & services tax and promotional activities. However, the level of positive sentiment fell to a four-month

low. Likewise, confidence among manufacturers dipped in the current reporting period.

**Comment:**

Commenting on the Indian Services PMI survey data, **Pollyanna De Lima**, economist at IHS Markit, and author of the report, said:

*“June’s results for services sounded a more upbeat tone than those from its sister PMI survey, which showed a slowdown in manufacturing. Growth of service sector activity and inflows of new business picked up as better demand conditions and marketing efforts bore fruit.*

*“With services being the prevalent sector in India, the fainter rise in manufacturing was more than offset and growth of private sector output climbed to an eight-month peak. What’s more, June’s figure contributed to the highest quarterly average for the composite PMI (52.2) since Q2 (FY) 2016. This suggests that GDP growth is likely to rebound from the sharp slowdown noted in the first three months of 2017.*

*“Nonetheless, the falls in confidence levels highlight no easy walk to stronger economic prosperity. Optimism weakened at goods producers and service providers alike, hampered by concerns among some firms that the goods & services tax could harm consumer demand, with competitive pressures also seen as a threat to the outlook.”*

-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](mailto:economics@ihsmarkit.com).

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