News Release EMBARGOED UNTIL: 10:30 (Mumbai), 05:00 (UTC), January 4th 2018

Nikkei India Services PMI® (with Composite PMI data)

India's service sector economy returns to growth in December

Key points:

- Marginal rise in activity recorded
- New orders stabilise
- Job growth quickens to the fastest since September

Data collected December 5-19

Following a decline in November, the Indian service sector returned to marginal growth during December as new orders broadly stabilised. Though solid overall, cost inflationary pressures also eased from November's recent-high, whilst business expectations remained positive. Reflecting improvements in output requirements, job creation quickened to the fastest since September.

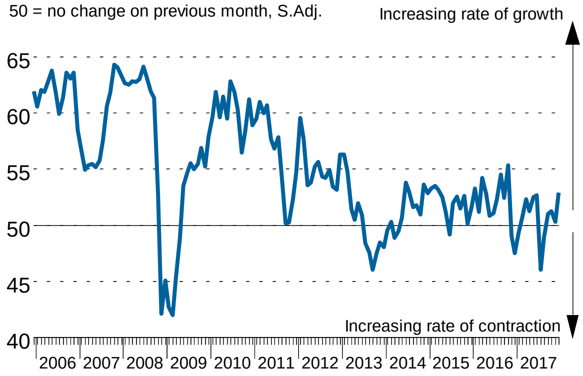
From 48.5 in November to 50.9 in December, the seasonally adjusted **Business Activity Index** signalled a renewed increase in activity following a decline in November. The turnaround in business activity stemmed from growth in Information & Communications and Finance & Insurance, with declines seen elsewhere. That said, activity growth was slight and remained well below the average recorded for the survey history as a whole.

Meanwhile, production growth at Indian manufacturers quickened to the fastest in five years. The headline seasonally adjusted **Nikkei India Composite PMI Output Index** posted at 53.0 in December up from 50.3 in November. The latest reading was the highest since October 2016 and greater than the average recorded in 2017 so far.

Following a decline in November, new orders stagnated. Where growth was reported, Indian service providers mentioned improved demand conditions. However, those firms that saw a decline in new contracts reported that the Goods and Services Tax (GST) continued to weigh on underlying sales volumes.

In comparison, manufacturing new orders rose for the second consecutive month in December. Moreover, the rate of expansion quickened to the sharpest since October 2016. Growth was underpinned by greater demand from domestic and international markets, according to anecdotal evidence.

Nikkei India Composite Output PMI



Sources: Nikkei, IHS Markit.

Reflecting cash shortages and delayed customer payments, levels of outstanding work rose at both manufacturers and service providers. Although modest, the rates of accumulation were stronger than their respective series average.

Monitored service providers increased staff recruitment during the month in response to greater activity, with jobs growth quickening to the fastest since September and stronger than the series trend.

Meanwhile, manufacturers raised their staffing levels during December. In fact, job creation accelerated to the sharpest since August 2012.

Another factor supporting hiring among service providers was confidence towards the outlook for activity. The degree of optimism was broadly similar to November's four-month high. An expected improvement in business conditions was the key factor behind positive projections, according to anecdotal evidence.

Despite being solid overall, input cost inflation in the service sector eased from November's four-year high and registered below the survey average. This translated into service providers raising output prices at the slowest pace since mid-2017 during December. Where average selling prices rose, respondents commented on the partial pass-through of higher cost burdens to customers. As was the case with input prices, output charges rose across all five broad sector groups.

Meanwhile, GST continued to exert upward pressure on manufacturers' cost burdens in December. Overall, input cost inflation quickened to the sharpest since April. Subsequently, firms raised their average selling prices at the fastest pace in 10 months.

Comment:

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

"India's service economy showed signs of recovery as it returned to marginal expansion in December. That said, it remained on a weak growth trajectory amid reports that the Goods and Services Tax (GST) was still hindering efforts to secure new clients.

"Greater backlogs continued to accumulate as a result of cash shortages and delayed payments that stemmed from the disruption of recent structural reforms.

"Still, the best overall performance of the economy was recorded since October 2016, endorsing the standpoint that the economy is recovering from the implementation of the twin shocks of demonization and GST. This expansion was mainly driven by manufacturing companies, with output growth here the sharpest since December 2012.

"Encouragingly, service providers were offered some respite around inflationary pressures, as input cost inflation registered below the series trend. Furthermore, job creation in both sectors outstripped historical averages signalling a continued revival of the labour market."

-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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