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Nikkei India Services PMI® (with Composite PMI data)

Growth of service sector eases to marginal pace

Key points:

- Business Activity Index down to 50.9 in September
- Near stagnation of new work
- Strongest rise in input prices for ten months

Data collected September 12-26

India's service sector continued to expand during September, but at a marginal rate amid reports of underwhelming market demand. Price pressures intensified, with higher fuel costs and a stronger US dollar raising the price of imported goods.

Expectations remained in positive territory, whilst firms added to their staffing levels for a thirteenth successive month as part of efforts to keep on top of workloads.

The seasonally adjusted **Nikkei India Services Business Activity Index** recorded 50.9 during September. That was down from 51.5 in August and the lowest reading in the current four-month sequence of rising activity.

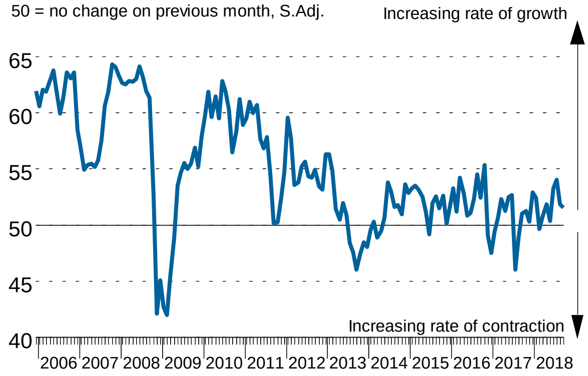
Meanwhile, the seasonally adjusted **Nikkei India Composite PMI Output Index** also recorded a fall during September. Posting a level of 51.6, the index was down from 51.9 in August and at its lowest level in four months. That was despite a slight improvement in the manufacturing sector, where output growth strengthened to a solid pace.

Weaker growth in the service sector was closely linked by panellists to a broad stagnation of new business. Companies reported that market conditions were underwhelming amid a lack of demand at a time of generally higher prices.

Broad sector data showed that underlying growth in activity and new work remained strongest in Information & Communication. In contrast, there were falls seen in the Finance & Insurance and Business Services categories.

September's survey revealed another net increase in service sector operating expenses. Latest data showed that input prices rose to the greatest extent since last November amid reports of higher fuel costs. A number of panellists commented that the relative strength of the US dollar was raising the price of a number of imported goods.

Nikkei India Composite Output PMI



Sources: Nikkei, IHS Markit.

In response, service providers raised their own charges. Average output price inflation was the strongest recorded since April and marked a twentieth successive monthly increase in prices charged.

Similar price trends were seen in the manufacturing sector. With fuel and imported goods in general up in cost, input prices rose to the greatest degree for three months, leading to slightly firmer increase in output charges.

Despite the slowdown in growth of activity and new business, capacity pressure in the service sector persisted as evidenced by another increase in backlogs of work. This encouraged companies to again add to their workforce numbers. September's survey showed staffing levels rising for a thirteenth successive month, albeit at a modest pace that was the weakest since last November.

Although manufacturers recorded a slightly stronger increase in employment, the rise was insufficient to prevent a slowdown in overall jobs growth. Latest data showed the net rise in private sector employment was the slowest in over a year.

Finally, confidence amongst service providers about the year ahead remained inside positive territory. Around 22% of the survey panel signalled expectations for activity growth, with market demand forecast to strengthen. Marketing and the offering of high quality services should also bolster activity.

Comment:

Commenting on the Indian Services PMI survey data, **Paul Smith**, Economics Director at IHS Markit, and author of the report, said**:**

“Growth of India’s services economy spluttered during September amid reports of faltering demand for services. And despite a slight pick-up in manufacturing output growth during the month, overall private sector activity rose at the weakest rate since May.

“Rising price pressures were cited as a factor weighing on market activity, with reports from panellists of rising fuel and import prices, in turn mainly driven by the stronger US dollar.

“Whilst companies were not completely discouraged to hire additional workers, the rate of employment growth was slower across the private sector as a whole and therefore pointed to a little more caution amongst firms heading into the final quarter of the year.”

-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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