

Nikkei India Services PMI™ (with Composite PMI data)

Stronger rise in new work boosts growth of services activity

Key points:

- Rates of expansion in new business and output gather pace
- Services employment increases in March
- Confidence improves

Data collected March 13-29

The Indian service sector moved further away from the demonetisation-related contractions seen towards the end of 2016 and beginning of 2017. New business and output rose for the second straight month in March, with rates of expansion accelerating in both cases. The improvement in business conditions promoted job creation, while confidence towards the year-ahead outlook for activity was at a four-month high.

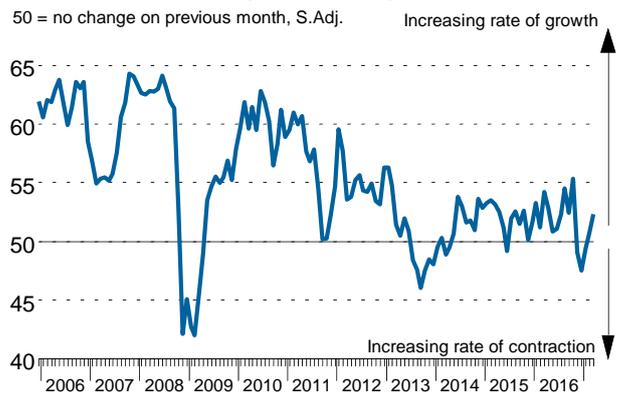
The **Nikkei India Services Business Activity Index** posted above the critical 50.0 level for the second-month running in March, highlighting ongoing growth of output in the sector. Moreover, rising from 50.3 in February to 51.5, the latest figure pointed to a stronger rate of expansion. The average reading over the final quarter of the fiscal year was above that seen in the prior period (from 49.3 to 50.2).

The upturn in manufacturing production also accelerated in March, reaching a five-month high. Subsequently, the seasonally adjusted **Nikkei India Composite PMI Output Index** increased to 52.3, from 50.7 in February, signalling a quicker rise in private sector activity across the country.

Underpinning the expansion in services activity was a back-to-back rise in new business inflows. As was the case for output, growth of new work also gathered pace in March. Anecdotal evidence highlighted improving demand conditions. At the same time, factory new orders increased at the strongest rate since last October.

In order to cope with higher workloads, service providers hired additional staff. Employment increased only slightly overall, but to the greatest extent since July 2015. Manufacturing jobs also rose in March as firms sought to expand operating capacity.

Nikkei India Composite Output PMI



Sources: Nikkei, IHS Markit.

Services companies indicated that activity is expected to rise over the coming 12 months, with the overall degree of optimism at a four-month high. Almost 24% of panellists signalled positive sentiment, with better marketing campaigns, strengthening demand conditions, plus hopes that the Goods & Services Tax bill will be favourable to businesses, the key factors supporting confidence. Likewise, goods producers were more upbeat towards growth prospects than in February.

Input costs facing services firms rose again in March, thereby stretching the current sequence of inflation to seven months. Despite accelerating to the fastest over this period, the rate of increase was moderate in the context of historical data. The main items reported to be up in price over the month were fuel and food. In contrast to the trend seen in services, purchase cost inflation in the manufacturing industry softened to a four-month low.

Amid reports of the passing on of higher cost burdens to clients, some services companies raised their own selling prices in March. Overall, the rate of charge inflation was slight, having softened since the preceding month. Firms that kept output prices unchanged mentioned efforts to stimulate demand. Similarly, factory gate charges increased at a slower pace and one that was below the long-run series average.

As has been observed on a monthly basis since mid-2016, outstanding business volumes at services firms increased during March. In many

cases, panel members blamed the latest rise in unfinished work on delayed payments from clients. That said, the rate of backlog accumulation was only modest and the slowest in nine months. By comparison, work-in-hand at goods producers rose at the weakest pace in three months.

Comment:

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

“India’s private sector economy stayed on an upward trajectory during March, benefiting from an upswing in demand and output. The country’s rapid recovery from the demonetisation-related downturn was accompanied by job creation and softer inflationary pressures.

“PMI data indicate faster growth of new business and output across the two monitored sectors, manufacturing and services. The former outperformed the latter with regards to expansion rates again during March.

“By historical standards, the increases in new work and activity remain relatively mild, though growth is likely to gather speed as we head into the new financial year. This is shown by firms’ willingness to hire additional employees and reinforced by stronger confidence towards the 12-month outlook for output.”

-Ends-

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For further information, please contact:

IHS Markit (About PMI and its comment)

Pollyanna De Lima, Economist
Telephone +44 1491 461 075
Email pollyanna.delima@ihsmarkit.com

Joanna Vickers, Corporate Communications
Telephone +44 207 260 2234
Email joanna.vickers@ihsmarkit.com

Bernard Aw, Economist
Telephone +65 6922 4226
Email bernard.aw@ihsmarkit.com

Nikkei inc. (About Nikkei)

Ken Chiba, Deputy General Manager, Public Relations Office
Atsushi Kubota, Manager, Public Relations Office
Telephone +81 3 6256 7115
Email koho@nex.nikkei.co.jp

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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