News Release

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Nikkei India Services PMI® (with Composite PMI data)

India services stuck in contraction territory

Key points:

- Business activity and new work fall again...
- ...but rates of contraction ease in both cases
- Charge inflation softens, while costs rise at faster rate

Data collected August 11-29

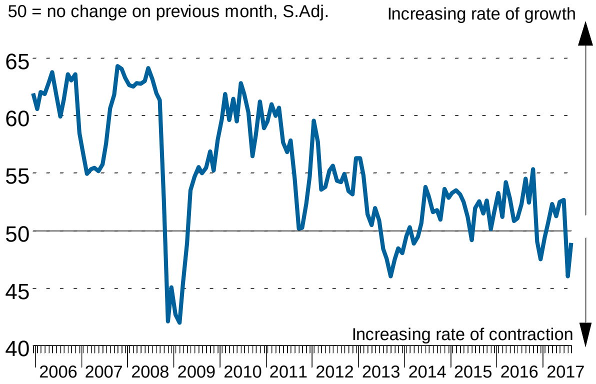
The Indian service sector was again impacted by the goods and services tax (GST) during August as a second consecutive drop in new business resulted in another monthly decline in activity. The downturn was less severe than in July, however, with rates of contraction softening in both cases. Jobs were shed, due to fewer workloads, and backlogs were accumulated. A slightly quicker rise in cost burdens was registered, whereas output charge inflation softened from July's recent peak. Companies remained optimistic towards growth prospects, though overall sentiment fell.

Registering 47.5 in August, the seasonally adjusted **Nikkei India Services PMI Business Activity Index** pointed to a second successive decline in output. Rising from 45.9 in July, however, the latest figure was indicative of a softer rate of reduction that was moderate overall. The downturn was often associated with the implementation of the GST, though there were also mentions of shortages of inputs.

Although manufacturing production rebounded from July's downturn, growth was insufficient to offset the contraction in services activity. Private sector output subsequently declined again. However, rising from July's 100-month low of 46.0 to 49.0 in August, the seasonally adjusted **Nikkei India Composite PMI Output Index** was consistent with a weaker pace of reduction that was only slight.

The trend for services activity mirrored that for new business, which decreased for the second month in a row but at a slower rate. Where a reduction was noted, panellists commented on subdued demand, competitive pressures and the GST. In contrast, factory orders returned to expansion territory in August.

Nikkei India Composite Output PMI



Sources: Nikkei, IHS Markit.

Although service providers retained an optimistic view towards the year-ahead outlook for activity, overall sentiment decreased in August. Survey participants indicated that the new taxation system and advertising campaigns are anticipated to support growth, but there were worries about competitive pressures. Similarly, goods producers were less upbeat than in July.

Price indicators continued to point to relatively muted inflationary pressures in the service sector. Input costs rose at a quicker rate in August, though one that was well below its long-run average. At the same time, output charge inflation softened from July's 53-month peak. Companies reported having paid more for beverages, food, fuel and paper and passing on to consumers only part of the additional cost burden. In the manufacturing industry, purchase prices increased at the slowest pace in one year. Whereas charges were raised, the rate of inflation was only marginal.

Meanwhile, service providers indicated that outstanding business volumes rose due to delayed payments from clients. Despite being modest, the rise in backlogs was the most pronounced since February. Across the private sector as a whole, work-in-hand increased to the greatest extent since February.

Finally, payroll numbers in the service economy decreased in August amid evidence of the non-replacement of voluntary leavers. The decline in employment was the second in successive months, but job shedding eased to a marginal pace as the vast majority of service providers left headcounts unchanged. Conversely, manufacturers took on extra staff at the quickest rate in nearly four-and-a-half years.

Comment:

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

"Services acted as a drag on the private sector economy in August, with the reduction in business activity offsetting growth of manufacturing production. While July's downturn in the goods-producing industry proved to be a temporary blip, services remained trapped in contraction.

"The underlying trend for services is one of uncertainty. Businesses are holding back on investment, leading to falls in employment. At the same time, input costs are increasing and firms are unable to fully pass these on due to competitive pressures. It's not all doom and gloom, however, as activity, new business and employment showed much slower rates of reduction than those noted in the prior survey period."

-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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