

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

## Service sector hit by introduction of goods and services tax

### Key points:

- Output and new orders fall for first time since January...
- ...and at fastest rates for almost four years
- Charge inflation at 53-month peak

Data collected July 12-27

Business conditions in India's service economy deteriorated markedly in July following the implementation of the goods and services tax (GST). Output and new work declined for the first time since January, with rates of reduction the quickest since September 2013. This had an adverse effect on the labour market, with employment contracting over the month. That said, firms expressed a lack of knowledge regarding the GST and expect more clarity in the near-term to lead to activity growth. Confidence for the year ahead was, in fact, the strongest since August 2016. On the price front, input cost inflation eased from June, while charges were raised to the greatest extent since early-2013

The seasonally adjusted **Nikkei India Services PMI Business Activity Index** plunged from June's eight-month high of 53.1 to 45.9 in July, its lowest level since September 2013. The headline figure signalled the first downturn in output since the start of the year, and one that was marked.

With manufacturing production also sliding markedly, private sector output dipped to the greatest extent since March 2009. The seasonally adjusted **Nikkei India Composite PMI Output Index** fell sharply from 52.7 in June to 46.0.

The launch of the GST was mentioned by services firms as having caused a contraction in new work, leading to lower activity. The drop in new business inflows echoed the trend for output, being the first since January and the most pronounced in nearly four years. Likewise, factory orders decreased in July and at the quickest pace since February 2009.

Faced with fewer workloads service providers and manufacturers lowered payroll numbers in July. Rates of job shedding were, however, slight in both cases.

Nikkei India Composite Output PMI



Sources: Nikkei, IHS Markit.

At the same time, outstanding business in the service economy rose to the greatest extent in five months. Delayed payments from clients was cited as the main reason leading to higher backlogs. Similarly, unfinished work in the goods-producing industry increased, albeit marginally.

According to services companies, higher tax rates and salaries awarded to staff resulted in another monthly increase in input costs. Nonetheless, the rate of inflation softened since June and was well below its long-run average. Manufacturers' purchase prices rose at a slightly quicker pace than in June, but one that was muted in the context of historical data.

Services charges rose at the sharpest rate in almost four-and-a-half years during July. Those companies that reported higher selling prices linked this to the implementation of the goods and services tax. On the other hand, manufacturers offered discounts amid efforts to stimulate demand. The drop in factory charges was the first in 17 months.

Indian service providers exhibited optimism towards the 12-month outlook for activity. More than one-quarter of panellists signalled positive sentiment in July, with hopes of a better understanding around the new tax regime boosting confidence. Indeed, the degree of optimism reached an 11-month high. Manufacturers were strongly upbeat regarding growth prospects, with sentiment also the highest since August 2016.

## Comment:

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

*“PMI data for July highlight a reversal in fortunes across India, with the economy going into reverse mode after seeing a pick-up in growth momentum during June. The downturn in services follows similar weakness in manufacturing, to make a double-whammy of disappointing news at the start of the second quarter of the 2017/2018 financial year. Private sector activity dipped for the first time since the demonetisation shock and to the greatest extent since early 2009, mirroring the sales trend.*

*“Most of the contraction was attributed to the implementation of the goods & services tax and the confusion it caused. Whereas many will question how deep an impact the GST will have on the economy in the near- and long-term, firms seem convinced that prospects will brighten as the new tax regime becomes clearer. As such, confidence regarding the year-ahead outlook for business activity climbed to an 11-month high.”*

-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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