

Nikkei India Services PMI™ (with Composite PMI data)

Services activity grows amid expansion in new business

Key points:

- Improving demand underpins growth of new work and services output
- Input cost inflation accelerates and service providers raise their charges
- Year-ahead outlook for services activity remains subdued

Data collected February 10-24

The **Nikkei India Services Business Activity Index** signalled growth in February as businesses recovered from the demonetisation-related disruptions seen in each of the previous three months. After slumping to a near three-year low last November, signalling the first monthly drop in output since June 2015, the headline index edged above the 50.0 no-change mark posting 50.3 (January: 48.7).

Having contracted for three months in a row, incoming new business also picked up in February. However, as was the case for output, the pace of growth in new work was marginal overall. Anecdotal evidence from survey participants suggested that, after being hampered by shortages of cash in the economy, demand for services in India improved.

The turnaround in business activity and inflows of new work came from the Financial Intermediation and 'Other Services' categories, with further declines seen elsewhere. Nonetheless, rates of contraction softened in all cases.

With manufacturing production rising again in February, the seasonally adjusted **Nikkei India Composite PMI Output Index** rose from 49.4 in January to 50.7, pointing to the first increase in private sector activity across India since last October.

Other survey indicators painted a mixed picture of the service sector's health. Respondents became less optimistic about the 12-month outlook for activity, with sentiment falling since January as firms were concerned about market competition. Concurrently, services companies continued to reduce payroll numbers.

Nikkei India Composite Output PMI



Sources: Nikkei, IHS Markit.

Employment has shown only one noteworthy monthly increase in the past one-and-a-half years (November 2015), though the rate of job losses in February was only fractional. By comparison, manufacturing staffing levels decreased over the month.

Backlogs of work at Indian services firms rose for the ninth successive month in February. The rate of accumulation was solid and the fastest since October 2016. In some cases, the increase in outstanding business was associated with difficulties in obtaining payments from clients. Goods producers also registered a sharper rise in work-in-hand.

Input prices facing services companies in India rose at the second-fastest pace in the current six-month sequence of inflation during February. According to survey participants, freight and raw material costs increased over the month. Higher cost burdens were also recorded in the manufacturing industry, where the rate of inflation climbed to a two-and-a-half year peak.

Services firms sought to pass rising costs on to customers by way of raising their own selling prices. The increase in output charges was the first in five months and the most pronounced since mid-2016. Meanwhile, factory gate prices rose at the sharpest rate in almost three-and-a-half years.

Continues...

Comment:

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

“The upturn in services activity follows news from the sister PMI survey showing factory production growing for the second straight month in February. With demand conditions strengthening in India, new business inflows rose in both sectors, leading to the first increases in private sector new work and output since October 2016. Nevertheless, growth rates were mild at best and far from their historical averages.

“It is still too early to state that expansion rates will climb to their trend levels in the near term. Companies remain reluctant to take on additional staff and confidence towards the 12-month outlook for output dipped to its second-lowest mark in over one year. These factors indicate that, so far, firms are doubtful about the sustainability of the economic recovery.”

-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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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 Markit. Please contact economics@ihsmarkit.com.

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