

Press Release

Improving demand keeps PMI in expansion zone Raw material shortages and increasing input prices remain near term risks

5 October, 2021

Underscoring India's sustained economic recovery, the Purchase Manager Index (PMI) manufacturing in Sep-21 rose to 53.7 from 52.3 in Aug-21, with the index averaging at 53.8 in Q2 FY22 vs. 51.5 in Q1 FY22. Amidst improving demand scenario, new orders from domestic as well as international market improved from the previous month, prompting manufacturers to significantly ramp-up overall production ahead of festivities and to replenish inventory levels. In order to accommodate for rising sales and production levels, the pace of input buying also improved significantly. However, raw material shortages, rising fuel prices and higher transportation cost led to input cost inflation to rise to a 5-month high. While many companies have started to pass on cost increases to consumers, it is at a slower pace given the nascent demand recovery.

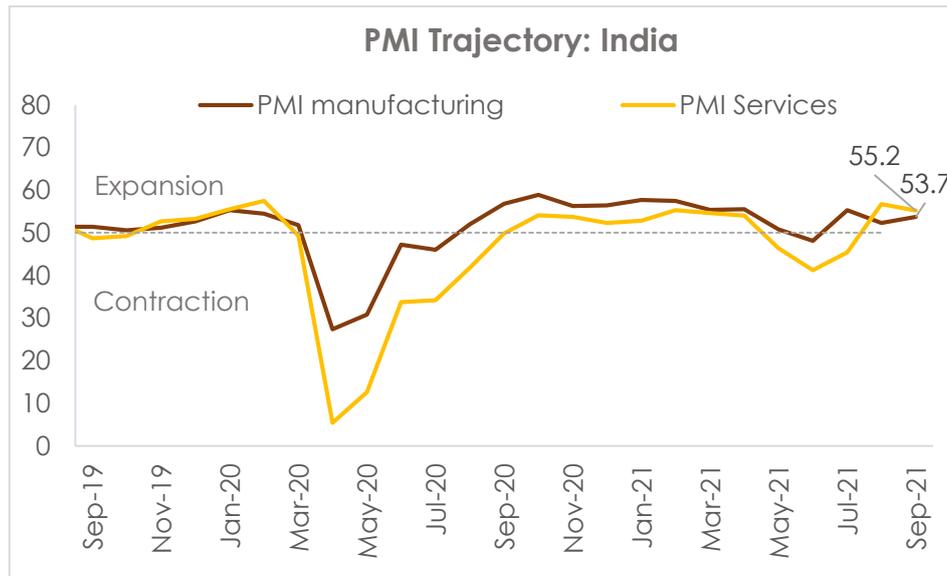
Surprisingly, PMI services, eased marginally to 55.2 in Sep-21 from an 18-month high of 56.7 in Aug-21. Nevertheless, the index continued to stay well above its long run average due to accommodative market conditions and improvement in overall demand. While further easing of lockdown restrictions coupled with marketing efforts of the service providers buoyed domestic business, travel restrictions continued to weigh on international demand for Indian services. Employment in the services segment rose after a hiatus of 10-months, however, several businesses indicated at having adequate capacity to meet current demand hinting that employment in services sector could see a lagged recovery. On the price front, average cost burden of business remained elevated despite a marginal dip in Sep-21 due to higher retail fuel, material, and transportation prices, leading business confidence to weaken to some extent.

Amidst near complete unwinding of lockdown restrictions along with gradual demand revival, both PMI manufacturing and services numbers have been recording healthy expansion for the past two consecutive months. We expect the trend to continue in the second half of FY22 due to onset of festive season, steady progress in

vaccination, declining probability of severe third Covid wave along with pent-up demand for goods and a vengeance spend on services. However, persistent inflationary pressures and raw material shortages could act as a downside risk to the PMI trajectory.

Annexure

Chart 1: Both PMI manufacturing and services continue to tread the expansion zone



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