

Press Release

Steady uptick in PMI Manufacturing a pleasant surprise Employment growth in both manufacturing and services encouraging

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The latest PMI data on manufacturing and services sectors for India published by S&P Global, continue to confirm that economic activity continues to be significantly resilient despite signs of a global slowdown. PMI Manufacturing index rose to a 31 month high of 58.7 in May-23 from 57.2 in Apr-23 and significantly higher than the 54.6 recorded in May-22. While the PMI Services index has seen a moderate decline to 61.2 in May-23 from a high of 62.0 in Apr-23, it is still higher than the 58.9 recorded in May-22. The firmness in both the indices has also led the PMI Composite index to sustain at a record high of 61.6 in May-23.

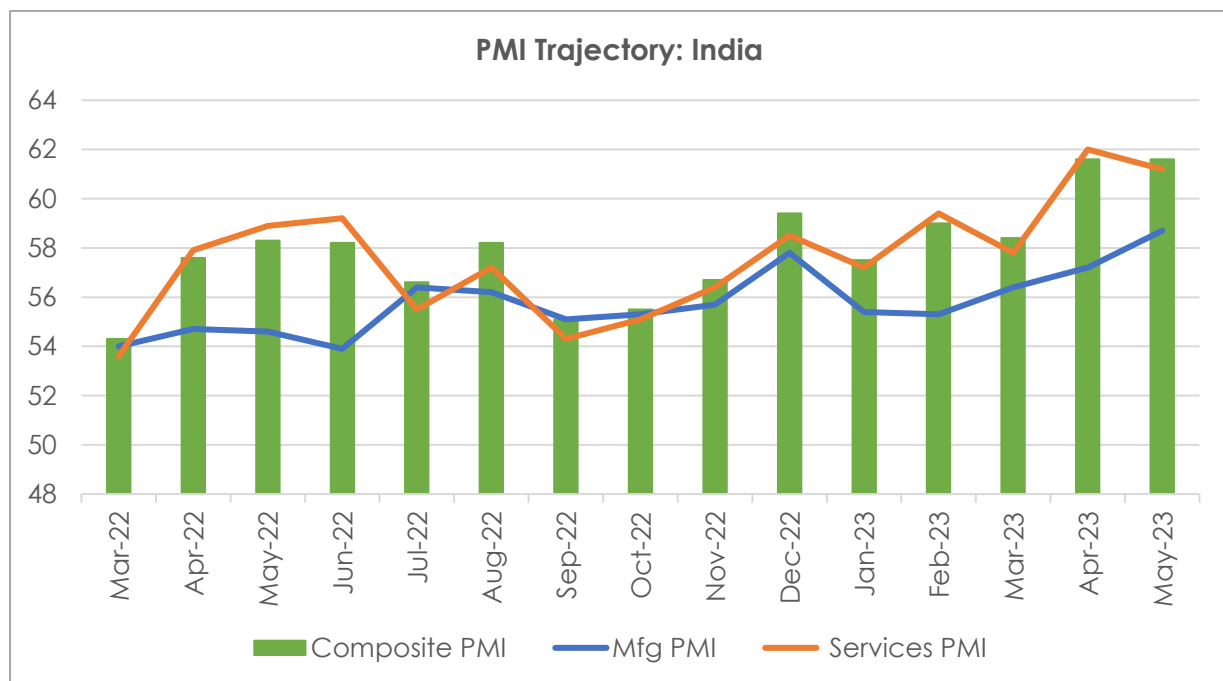
The latest GDP data published by NSO highlights that the manufacturing sector GVA has grown by 6.1% YoY in Q4FY23 as compared to 2.5% in Q3FY23. This is also corroborated by the PMI Mfg trajectory which has been well above the level of 55 since the beginning of the calendar year and particularly higher in Apr-May'23. Clearly, the sector has seen a resurgence despite the slowdown in the global economy as a whole and reflects the optimism in some of the manufacturing businesses, supported by factors such as steady domestic demand, moderation in commodity prices and favourable business conditions. This was the 23rd consecutive month of expansion in manufacturing activity and the rate of improvement was the strongest since October 2020. In May 2023, factory orders increased at the fastest pace since January 2021. Further, the pressures on capacity facilitated job creation midway through the first fiscal quarter, with the rate of employment growth improving to a six-month high.

The PMI for the services sector at 61.2 reported a marginal decline compared to the previous month's reading of 62.0 which still indicates a strong and sustained expansion in the sector with the second strongest rate of growth in just under 13 years. This depicts stability in business activity and increased confidence among service providers. The latter have sought to expand their operating capacities by fresh hiring; employment grew slightly that was nonetheless the fastest in 2023 so far. Indian's gross service exports, it may be recalled, has grown by 26% in FY23 to reach USD 315 bn and while the momentum may see a moderation in the current year, it is likely to record a sustainable growth. Nevertheless, inflationary pressures remain a challenge for service providers, and survey respondents have highlighted rising costs for food, inputs, labour and transportation. Consequently, firms decided to raise billing rates again in May, which was the fastest upturn in output charges for nearly six years.

Given the rise in both indices, the PMI Composite index also held on to the high of 61.6 in Apr-23.

Says Suman Chowdhury, Chief Economist and Head-Research, Acuite Ratings & Research “While the buoyancy in the services sector has been visible for the past few quarters, the gradually rising trajectory of PMI Manufacturing in India raises hopes of a healthy and sustainable growth in the sector. With steady domestic demand and resilient export orders in some industries, the manufacturing sector has seen a strong pickup in GVA growth to 6.1% in the last quarter. S&P’s latest PMI report is also optimistic about new hiring in both manufacturing and services. However, the headwinds to growth such as the impact of increased interest rates and global uncertainties on domestic investment activity are likely to be experienced. Also, the risk of an erratic monsoon and its adverse impact on the agriculture sector exists as of now. Our base forecast of India’s GDP growth in FY24 therefore, continues to be at 6.0%, with some downside risk.”

Chart 1: Moderation in PMI Services but a consistent rise in PMI Mfg is encouraging



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