

Press Release

PMI manufacturing and services continue to remain robust Composite PMI touches a high of 59.2 in Nov-21

3-Dec-2021

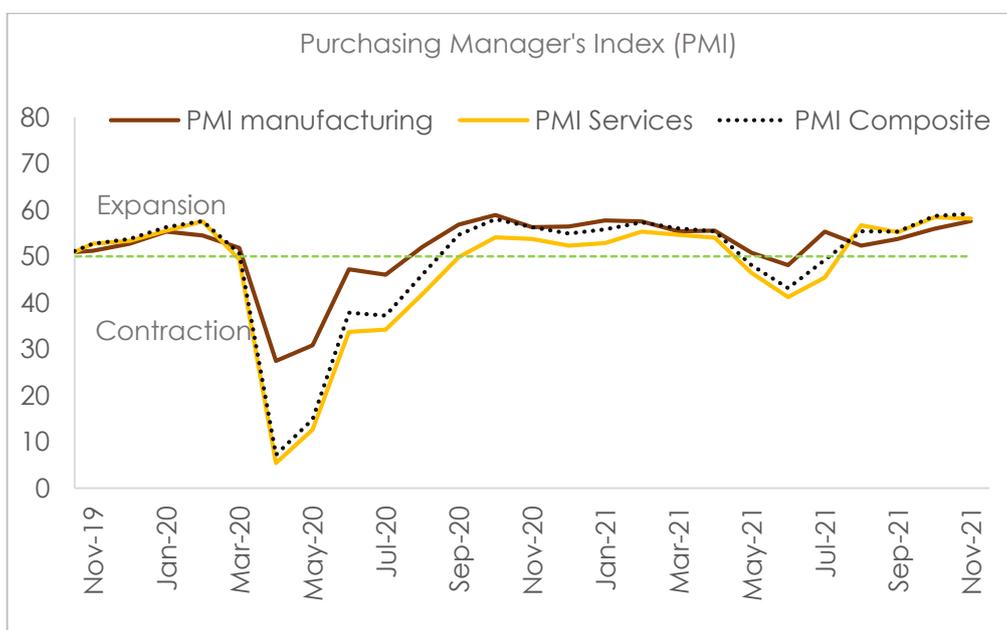
India's sustained economic revival after the second Covid wave continued to reflect in PMI manufacturing with the index rising to a 10-month high of 57.6 in Nov-21 from 55.9 in Oct-21, staying well above its long run average of 53.6. Strengthening demand scenario, primarily from domestic market, subsequent to the removal of lockdown restrictions, led factory orders to rise at a sharpest pace since Feb-21 thereby supporting fastest upturn in production levels. This led hiring activity to rise marginally, following three consecutive months of job attrition. Robust production also encouraged manufacturers to scale up their input buying (second-quickest accumulation in stocks of purchases since Mar-05). The pick-up in input buying along with declining level of finished goods inventories and gradual rise in hiring activities indicates that production levels will continue to remain strong in the near term. The recovery in consumption and the buoyancy in the manufacturing sector is also reflected in the sharp uptick in imports seen since Sep-21 with a monthly average of USD 54.3 bn which is a 42.8% growth even from the pre-pandemic period of Sep-Nov'19.

PMI services stood at 58.1 in Nov-21 marginally lower as compared to 58.4 in Oct-21 led by improving demand conditions in the domestic market, re-opening of establishments and enhanced marketing efforts. The gradual improvement within services sector post the impact of second Covid wave was very well reflected in the recent GDP print for Q2 FY22, where services sector re-bounded by a sharp 10.2% YoY and 16.2% QoQ from 11.4% YoY and -11.8% in Q1 FY21 respectively. The uptick in services sector was primarily driven by the ongoing recovery in trade, hotels and transport segments which saw revenge spending amid gradual unwinding of lockdown restrictions in India. However, resurgence of Covid cases in some nations along with continuing international travel restrictions caused a further drop in global demand for Indian services including tourism. On the other hand, employment levels remained unchanged from Oct-21 due to lack of pressure on capacities.

Strong momentum in manufacturing and services sector led India's composite PMI to expand further to 59.2 in Nov-21 from 58.7 in Oct-21 signaling the strongest upturn since Jan-12. While expansion in both the sectors remained strong, the point of concern for manufactures as well as service providers is the input cost pressure that leads business sentiment to dampen. While they have started to partially pass on the burden of higher input prices to end consumers, there is an apprehension that high retail inflationary pressures could dampen demand and restrict output in the year ahead.

Overall, we expect PMI manufacturing and services to remain strong in the remainder of FY22 amidst a near complete removal of lockdown restrictions, ebbing of infections, improved consumer sentiments and steady progress on vaccination. However, we believe that persistent core inflationary pressures along with any resurgence in the pandemic given the reported spread of a new variant, could act as a downside risk. While we can't be dismissive about the possibility of a third Covid wave, the additional economic impact is expected to remain limited amidst increase in the pace of vaccinations and existing seroprevalence.

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



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