

Press Release

Promising start for economic activity in Q3FY25

PMI indices recover from Sep-24 lows

November 6, 2024

The Manufacturing PMI reached 57.5 in October, marking a material improvement from 56.5 in September. This rise points to a positive trend, underpinned by improved demand outlook both locally and globally, with higher new orders, stronger production, and higher business confidence. Similarly, Services PMI climbed to 58.5 in October, up from 57.7 in September, bolstered by a recovery in demand and new export contracts. The increase in both Manufacturing PMI and Services PMI drove the overall Composite PMI to 59.1 in October, up from 58.3 in September, signalling an upward trend.

Manufacturing Sector – Manufacturing PMI rose to 57.5 in October, up from 56.5 in September, signalling a steady recovery. The increase in manufacturing output was fuelled by stronger demand for Indian goods, both within the country and abroad. The festive season and the wedding season in the third quarter have contributed to the higher domestic demand. There was a notable acceleration in total new orders, with a significant rebound in fresh export orders following their slowest growth in 18 months in September. This uptick in exports was driven by stronger demand from markets around the world.

The increase in demand spurred higher production, especially in consumer and investment goods, which saw particularly strong growth. To accommodate this surge, companies boosted their raw material purchases, and suppliers were able to meet these demands efficiently. As a result, purchases continued to rise due to the improving demand, alongside a notable increase in pre-production inventories.

While the manufacturing sector continues to expand, it is grappling with inflationary pressures. The survey showed that input price inflation climbed to a three-month high, though it was still below its long-term trend. The significant rise in input costs—especially for labour, materials, and transportation—prompted higher selling prices. In parallel, output prices increased at a stronger pace, surpassing the historical average.

Overall, manufacturers displayed greater confidence in future production, with positive sentiment surpassing the long-term average from the 13-and-a-half-year series. This uptick in activity also led to a rise in hiring, as nearly one in ten manufacturing firms reported adding new jobs.

Service Sector – India's Services PMI surged to 58.5 in October, surpassing both September's 57.7 and the preliminary estimate of 57.9. The Services PMI rebounded in October after falling to a 10-month low in September, fuelled by a revival in demand

both domestically and internationally. This surge in demand boosted activity in India's dominant services sector, along with a recovery in new export orders.

In October, input costs rose, primarily due to higher wage bills and food expenses, leading to increased business costs. Service providers raised their prices in response to these cost pressures, which hit a three-month high, driven by rising costs for food items such as eggs, chicken, meat, and vegetables, along with higher labour and transportation expenses. This raised the risk of inflationary pressures, following a jump to a nine-month high of 5.49% in September.

Overall, stronger sales and a positive outlook for the near future prompted services companies to boost their workforce at the fastest pace seen in over two years.

Composite PMI – The overall Composite PMI improved to 59.1 in October, compared to 58.3 in September. The increase was driven by new business inflows in both manufacturing and services, which stimulated sales and employment growth at the composite level. At the same time, inflation rates for input costs remained uniform across both industries.

Says **Suman Chowdhury, Chief Economist and Executive Director, Acuite Ratings & Research** "The recovery in the PMI indices in Oct-24 is promising for the second half of the fiscal after the dip in several high frequency indicators in the month of Sep-24. Industrial and services activity have expectedly received a boost from the anticipated spike in consumption demand in Q3FY25, driven by the festivities and the marriage season. However, it's important to monitor the sustainability of the PMI indices at these elevated levels, given the reported weakness in urban demand in Q2 as reported by FMCG companies. Further, there is also a significant likelihood of a moderate rise in wholesale and core retail inflation amidst higher input costs, wage pressures and lower corporate margins. The latter may delay the expected cut in interest rates to the next quarter (Q4). While we retain our GDP growth forecast at 7.0% for FY25, we believe that the downside risks to growth have increased and need to be tracked over the next few months".

Chart 1: PMI indices for October 2024

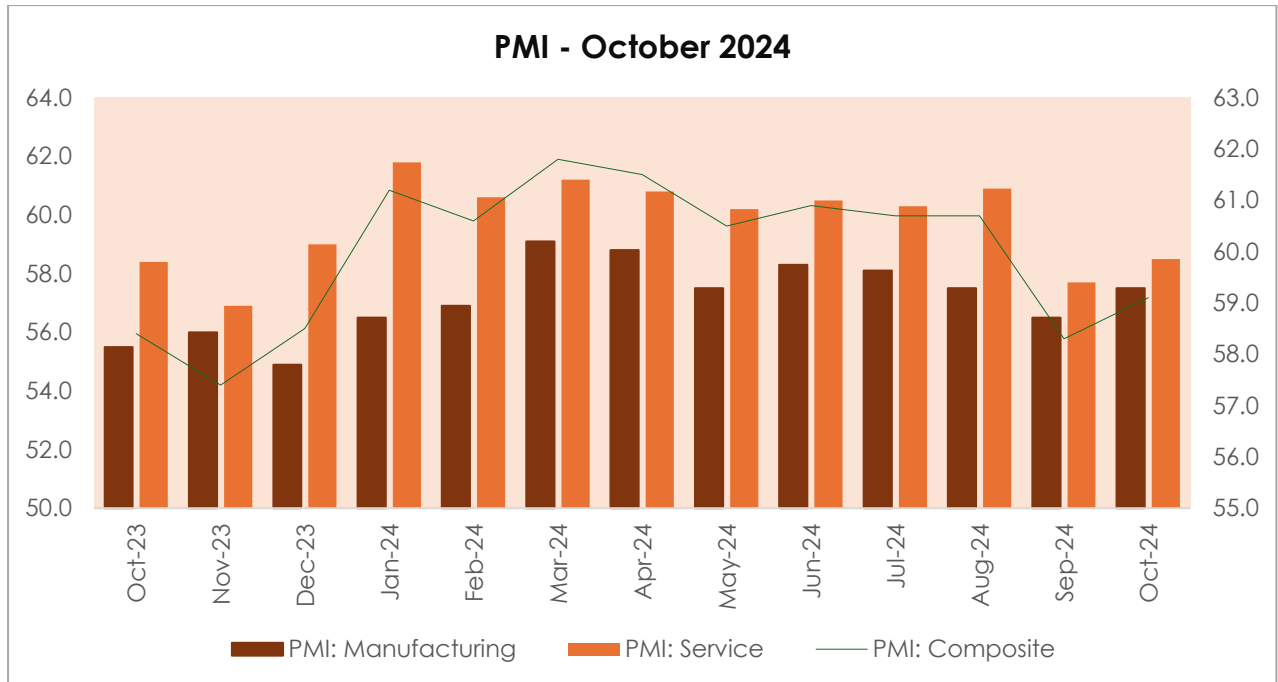


Table 1: PMI Indices Heatmap: Oct'23 to Oct'24

Month	PMI: Manufacturing	PMI: Service	PMI: Composite
Oct-23	55.5	58.4	58.4
Nov-23	56.0	56.9	57.4
Dec-23	54.9	59.0	58.5
Jan-24	56.5	61.8	61.2
Feb-24	56.9	60.6	60.6
Mar-24	59.1	61.2	61.8
Apr-24	58.8	60.8	61.5
May-24	57.5	60.2	60.5
Jun-24	58.3	60.5	60.9
Jul-24	58.1	60.3	60.7
Aug-24	57.5	60.9	60.7
Sep-24	56.5	57.7	58.3
Oct-24	57.5	58.5	59.1

About Acuité Ratings & Research Limited:

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