

Press Release

Sep PMI signals moderation in economic activity in Q2

Nevertheless, indices stay above long term average

October 5, 2024

The Manufacturing PMI dropped to 56.5 in September from 57.5 in August, signifying three months of a gradual but continuous decline in factory production and sales growth. Simultaneously, the Service PMI decreased to 57.7 from September 60.9 in August, marking its first fall below the important level of 60 in calendar 2024. Despite both measures being at their lowest levels this year, they remain above the long-term averages. Concurrently, the Composite PMI slipped to 58.3 in September from 60.7 in August, reflecting a slower pace of expansion in both manufacturing and services sector in the second quarter of the current fiscal.

Manufacturing Sector – The Manufacturing PMI declined to 56.5 in September from 57.5 in August, highlighting a third consecutive month of a lower growth in factory production and sales.

Sales growth was supported by positive demand trends but was tempered by fierce competition and softer new export orders. There was a notable decline in export demand, resulting in the lowest export growth in a year and a half, which affected business sentiments.

While factories maintained strong production, output growth hit an eight-month low, particularly in consumer and capital goods, with intermediate goods holding steady. Manufacturers reported rising cost pressures due to higher prices for chemicals, packaging, plastics, and metals. Although input price inflation was mild historically, it increased in September, squeezing profit margins. Slower profit growth is reducing hiring demand, resulting in a third consecutive month of slowed employment growth.

In response to rising costs and strong demand, Indian manufacturers raised their charges in September. Inventory data reveals that finished goods stocks have declined for over seven years, while raw material holdings have risen with improved lead times. However, overall business confidence fell to its lowest level since April 2023.

Service Sector – The Service PMI fell to 57.7 in September from 60.9 in August 24, marking the first time it dropped below the important level of 60 in 2024. While India's services sector saw a healthy growth, a weaker demand caused it to fall to a 10-month low in September.

Overall, total sales growth faced challenges from a slower increase in new export orders, compounded by intense competition, influx of new players, cost pressures, and shifts in consumer preferences toward online services.

Intense competition limited price inflation across India's service economy in September. Input costs remained high due to rising energy and material prices, while output prices increased at their slowest rate, leading to the weakest rise in selling prices in over two and a half years. Consequently, service companies likely faced tighter margins, as price increases lagged the growing input cost inflation.

Nevertheless, services businesses showed heightened confidence in their output outlook. Overall positive sentiment increased from August due to optimism on higher pending project approvals and enhanced efficiency. This encouraged firms to continue expanding their workforce, resulting in a slight uptick in hiring from August and extending the streak of job creation to over two years.

Composite PMI – The Composite PMI also showed a decline, dropping to 58.3 in September from 60.7 in August, indicating a more measured pace of expansion amid slowing activity in both sectors.

Says **Suman Chowdhury, Chief Economist and Executive Director, Acuite Ratings & Research** "For the first time in the current fiscal year, there are signs of cracks in the PMI indices which had otherwise demonstrated significant resilience since the previous year. India Manufacturing PMI dropped to an eight month low and importantly, there has been a steady albeit gradual downtrend in the index from July 2024. This coincides with a contraction in core sector output in August 2024 and highlights the risks of a material slowdown in industrial growth in Q2FY25. Further, the PMI Services index saw a sharp drop to a 10 month low in Sep-24 after being above the threshold of 60 since Jan-24. Weaker global demand for IT/ITES services coupled with slower domestic urban demand may have contributed to such an unexpected decline. While the onset of the festive season can be a trigger for an uptick in domestic demand for both manufactured goods and services, export demand will continue to be an element of concern. We believe that the latest PMI indices signal downside risks to the growth forecasts for FY25 and will make us watch the economic indicators very closely in the months ahead. We also look forward to the growth commentary from RBI-MPC in the upcoming Oct-24 meeting."

Chart 1: PMI indices reflected a downturn in September 2024

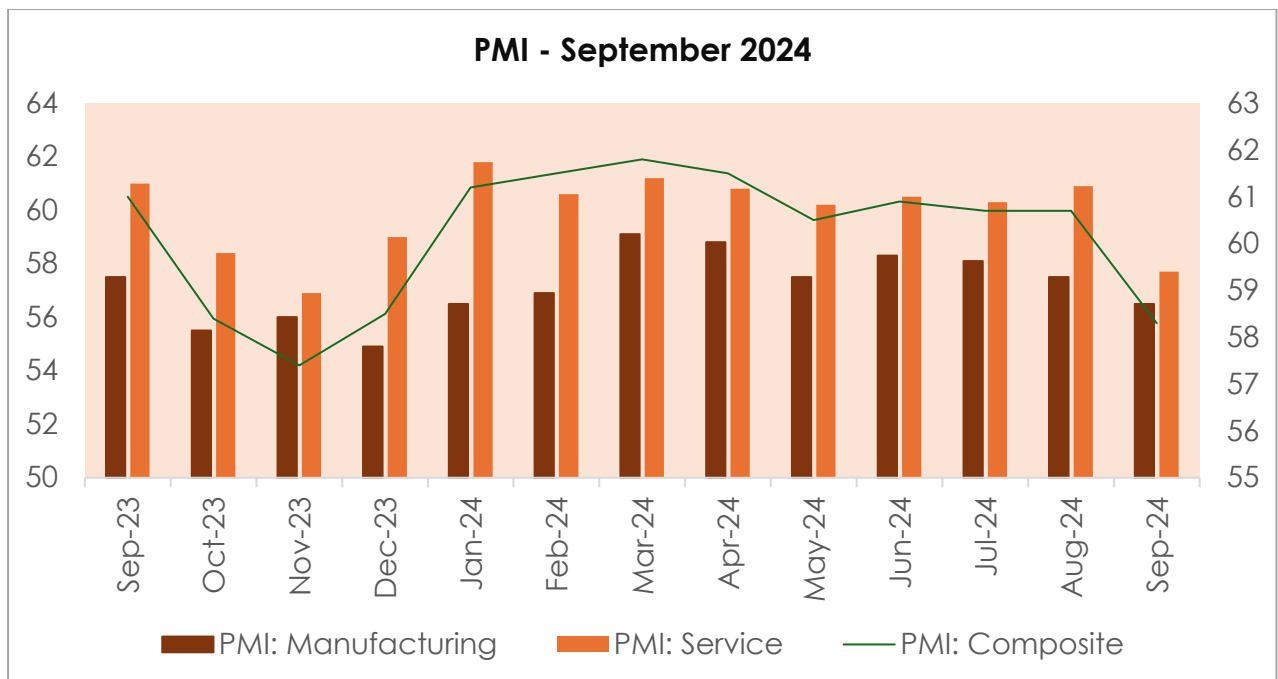


Table 1: PMI Indices Heatmap: Sept'23 to Sept'24

Month	PMI: Manufacturing	PMI: Service	PMI: Composite
Sep-23	57.5	61	61
Oct-23	55.5	58.4	58.4
Nov-23	56	56.9	57.4
Dec-23	54.9	59	58.5
Jan-24	56.5	61.8	61.2
Feb-24	56.9	60.6	61.5
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

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