

Press Release

PMI starts off in FY23 on a good note

Inflationary pressures, however, continue to remain a major source of concern

05 May 2022

PMI manufacturing in India recouped some of its lost momentum in Apr-22, starting FY23 on an encouraging note despite increasing headwinds from geopolitical risks. As such, the index improved marginally to 54.7 in Apr-22 from 54.0 in Mar-22 led by improvement in new orders and production. New export order growth also rose to a nine-month high after recording a contraction in Mar-22. Increase in demand from domestic as well as global markets led firms to scale-up their production levels. However, the pressure on inflation front continued to intensify with input costs increasing amidst supply chain bottlenecks, volatility in commodity prices, and rising freight costs. Against this backdrop, manufactures have passed on the burden of increased input costs to end consumers at a faster clip, which led the output price index (WPI) to hit a one-year high in Apr-22.

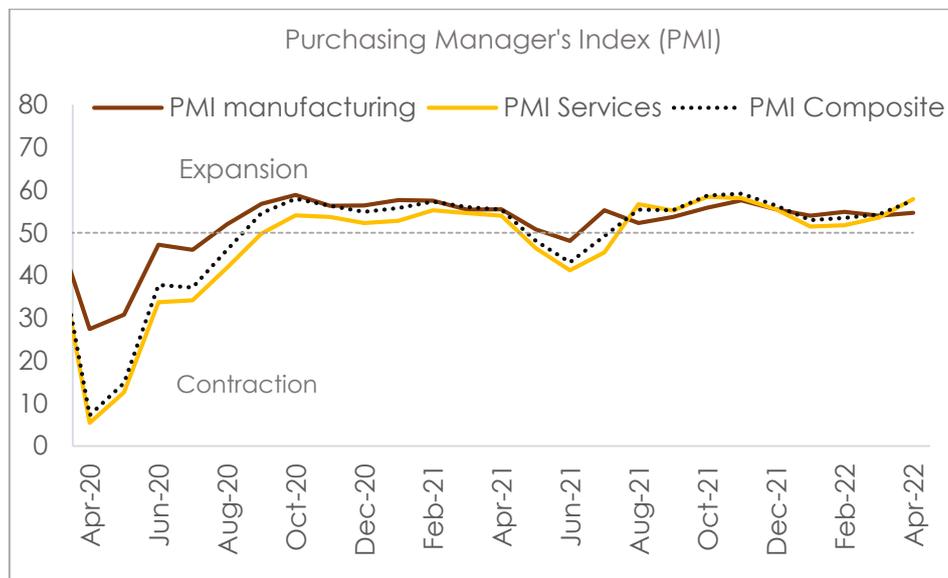
On the other hand, PMI services further rose to a five-month high of 57.9 in Apr-22 from 53.6 in Mar-22. The improvement has been led by the ongoing revival in the contact intensive services, uptick in new business orders and strengthening demand conditions. The improving demand was primarily from the domestic market, while demand from the overseas market further declined (demand from the international market has been on the declining trajectory since the onslaught of the pandemic). The narrative on the price front is similar to that of manufacturing sector. The service providers have been facing increased cost pressures amidst the Russia-Ukraine conflict and the rise in input costs particularly employee wages. With increasing pressure on the operating margins, service providers hiked their selling prices to the greatest level in nearly five years.

Improvement in PMI manufacturing and services led composite PMI to also increase to 57.6 in Apr-22 from 54.3 in Mar-22. While business confidence of manufacturers improved marginally, that of service providers remained subdued led by continued rise in inflationary pressures. The amplifying hostilities between Russia and Ukraine has continued to put pressure on supply and prices of certain commodities which has already started to feed into India's inflation basket. The imposition of unprecedented

levels of sanctions on Russia by the western nations, have cast a fresh uncertainty on the global growth outlook and is set to pose a downside risk to the domestic growth prospects given the disruption in the global commodity markets and the global supply chain of some products. IMF also in the latest economic outlook, revised global growth forecast lower to 3.6% in 2022 from 4.4% projected in Jan-22. The adverse impact of inflation and supply chain concerns on business sentiments may however be partly offset by several government initiatives, fiscal incentives, and emerging export opportunities that will help create a paradigm shift in manufacturing sector over the medium to long term.

Annexure

Chart 1: PMI services witnesses a quicker momentum in Apr-22



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