

Press Release

Covid's retreat improves PMI manufacturing and services in Feb-22 Inflationary pressures continue to weigh on business confidence

4-March-2022

India's PMI manufacturing improved marginally to 54.9 in Feb-22 from 54.0 in Jan-22 supported by the relatively rapid moderation of the third Covid wave. An increase in new orders from domestic as well as international market led to an improvement in production activities in the manufacturing space which further nudged higher the pace of input buying in Feb-22. Some signs of capacity pressures were seen in the manufacturing sector, with the backlogs rising marginally. On the price front, substantial rise in input costs due to spike in commodity prices has led manufacturers to raise output prices at a modest pace. While the degree of optimism remained below the long run average, business sentiment improved visibly underpinned by business expansion plans and a gradual normalization post the Omicron wave in Jan-22.

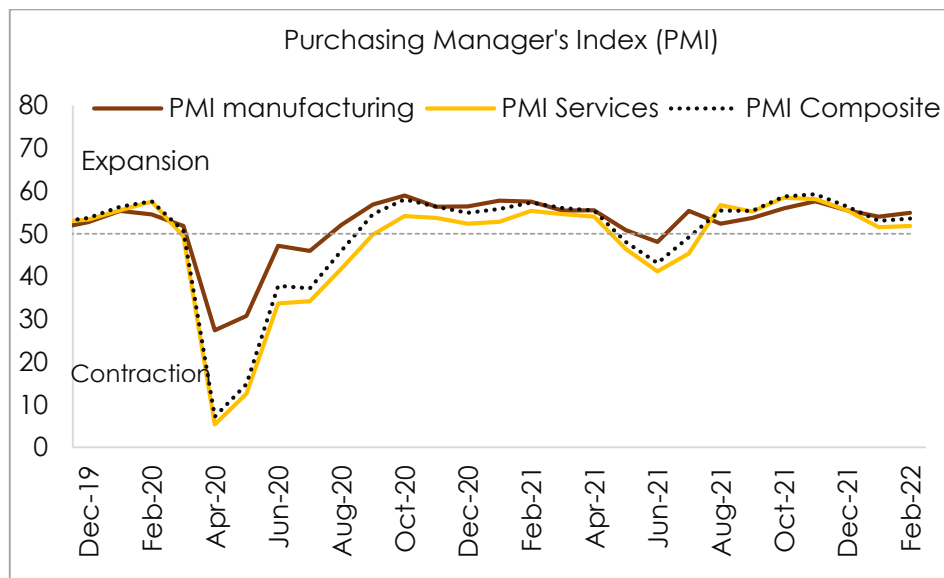
A similar narrative was also seen in PMI services with the index improving a tad to 51.8 in Feb-22 from 51.3 in Jan-22. While new business inflows improved in Feb-22 with improving demand conditions, it was nevertheless lower than the long run average due to input shortages, local elections, and high prices. Continued travel restriction led demand for Indian services in the international market to remain subdued. Service providers have begun to transfer additional cost burdens to customers since the increases in input price pressures have started to impact the operating margins of the businesses.

Business confidence across manufacturers and service providers still remain subdued led by continued rise in inflationary pressures. While the rapid taper of Covid cases, progress in vaccination along with pent-up demand are likely to keep manufacturing and services segment buoyant, the rise in inflation led by higher crude oil prices is expected to have an adverse impact on consumption demand over the next few months. Additionally, the ongoing conflict between Russia and Ukraine has once again clouded the global growth prospects. While we believe that the growth outlook for India may not have a high linkage with the emerging geo-political risks, the increasing sanctions on Russia by many developed nations can disrupt the global

commodity markets and global supply chain of some products, thereby having an indirect impact on the supply side and aggravating the inflationary pressures. Nonetheless, the government's focus on promoting exports and indigenous manufacturing through PLI schemes, extension of ECLGS scheme for MSME sector, introduction of a new law for reforming the special economic zones and plans for 100 cargo terminals are steps in the right direction and show the government's intent to create a paradigm shift in manufacturing sector over the medium to long term.

Annexure

Chart 1: PMI manufacturing and services improves marginally in Feb-22



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