

Press Release

India's PMI trajectory slows further in Jan-22 Omicron driven spurt in cases dampens sentiments

4 February 2022

India's PMI manufacturing eased for the second month in a row to 54.0 in Jan-22 from 55.5 in Dec-21. Nevertheless, it has continued to trail in the expansion territory for the seventh consecutive month but the gains were capped due to the fresh surge in Covid cases and the consequent state level mobility restrictions, albeit moderate. The growth in production levels eased stymied by shortage of raw materials, inflationary pressures, and the uncertainty regarding short term demand. On the price front, substantial rise in input costs due to spike in commodity prices has led manufacturers to raise output prices at a faster pace than the previous month.

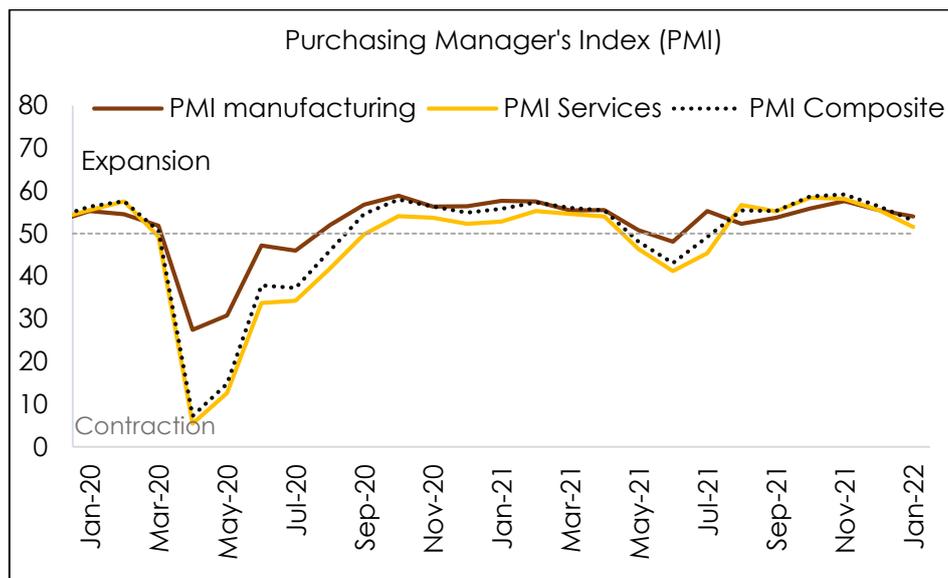
The impact of Omicron wave was particularly visible in the contact-intensive sectors with PMI services easing to a six-month low of 51.5 in Jan-22 from 55.5 in Dec-21. The spike in Covid cases and reintroduction of mobility restrictions in some states led new orders and output to rise at the slowest pace in the last six-months. Additionally, imposition of travel restrictions amidst rising caseloads globally, dampened international demand for Indian services. Nevertheless, the overall adverse impact on the sector was moderate as compared to the previous pandemic waves on account of localized nature of restrictions along with a significant drop in Covid cases towards the end of Jan-22. On the other hand, input price pressures remained a major cause of concern as they rose at the sharpest rate in over a decade leading to increase in the prices charged by the private sector firms.

Overall sentiments across manufacturers and service providers has been dampened due to the re-emergence of the pandemic along with the rise in inflationary pressures. India's crude oil basket has risen again to over USD 85 per barrel in Jan-22. While receding Covid cases, progress in vaccination along with pent-up demand are likely to keep manufacturing and services on a positive demand territory in the medium term, rise in inflation is expected to offset consumption demand to some extent. Nevertheless, the government's focus in the Union Budget on encouraging indigenous production through rationalization of customs duty exemption for certain product categories, continuation of relief to the stressed MSME businesses through the

expanded and extended ECLGS programme, revamp of the SEZ (Special economic Zone) Act, and construction of 100 cargo terminals are steps in the right direction that will create a paradigm shift in manufacturing sector over the long term, thereby improving operating efficiencies and strengthening export competitiveness.

Annexure

Chart 1: PMI dips further in Jan-22 but remains in expansion zone



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