Press Release

PMI manufacturing and services remain resilient to global headwinds

Moderation in commodity prices can improve growth prospects

08-August-2022

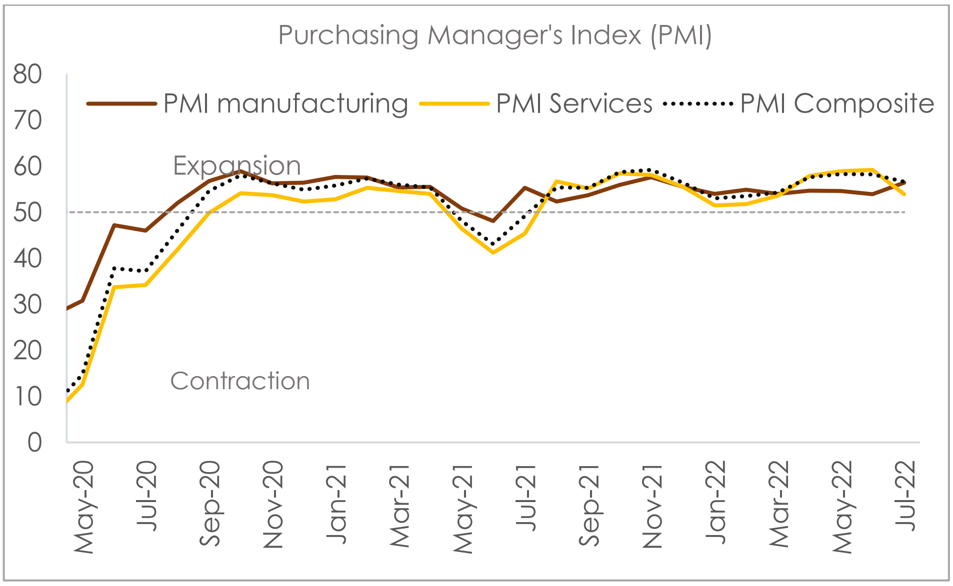
PMI Manufacturing started the quarter on a good note with the index rising to an eight-month high of 56.4 in Jul-22 from 53.9 in Jun-22. A coalition of favorable factors such as better demand conditions, pick up in output levels and moderation in price pressures have led the PMI manufacturing index to remain buoyant despite the global slowdown weighing on India's export growth. New export orders rose at a moderate pace that was the weakest in the four-month period of the current fiscal. This is also reinforced in India's export print which eased to a 4-month low in Jul-22 to USD 35.2 bn from USD 37.9 bn in Jun-22. Encouragingly, due to moderation in commodity prices, cost burden for the producers eased leading the input cost inflation to rise at a slower pace. Nevertheless, despite the strong performance of the manufacturing industry, overall job creation remained subdued. Majority of the survey respondents opted to retain the current workforce size amid a lack of pressure on operating capacity and some level of future uncertainty.

PMI services, on the other hand, lost some momentum moderating from an 11-year high of 59.2 in Jun-22 to 55.5 in Jul-22 led by weaker revenue growth and still higher prices confining the uptick in business activity. Nevertheless, some respite the moderation in commodity prices helped the input as well as output prices to increase at the slowest pace since Feb-22. Underlying data indicated that the domestic market remained the key source of revenue growth as international demand for Indian services worsened further. However, some offsetting impact to India's domestic demand came from unfavorable weather conditions (monsoon rains), and fierce competition with the sector. The rate of job creation was fractional and broadly similar to Jun-22. As per the survey participants, majority of service provides left payroll numbers unchanged amid a lack of strong order book growth.

Despite the resilient macroeconomic backdrop, overall business confidence amongst manufacturers and service providers remained muted amid uncertain global growth outlook. IMF in its latest World Economic Outlook, downgraded world GDP growth for 2022 further by 40 bps to 3.2% and for 2023 by 90 bps to 2.9% (i.e., compared to Apr-22 estimates). This is likely to exert a downward impact on growth on India (via exports). Notwithstanding the weakness in external metrics and the rising interest rates, India's economic activity has remained fairly buoyant in FY23 so far. The correction in global commodity prices seen in Jun-Jul'22 definitely comes as support for growth outlook. The softening is likely to provide producers some respite in the face of a sharp rise in input costs experienced in the last one year. In addition, the revival in south-west monsoon activity, capex focused central government expenditure and high vaccination coverage bodes well for India's growth trajectory. Going forward, we expect services sector to continue to recuperate at a faster clip than the manufacturing sector. Assuming risks to be broadly balanced at this stage, we continue to hold to our FY23 GDP growth projection of 7.5%.

Annexure

Chart 1: PMI manufacturing and services remain resilient despite global headwinds



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