

Press Release

Geopolitical risks weigh on PMI manufacturing; PMI services improves Inflationary pressures continue to weigh on business confidence

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The decline of the pandemic intensity in India has given way to a fresh set of geopolitical uncertainties which led India's PMI manufacturing to ease slightly to 54.0 in Mar-22 from 54.9 in Feb-22. While the overall business environment in the month of Mar-22 improved led by the year-end seasonality and complete unwinding of lockdown restrictions, domestic factory orders and production grew at a softer pace; additionally, new export orders also recorded a decline in Mar-22. On the price front, the manufacturers have been grappling with higher costs due to continuous rise in input price pressures. Amongst commodities, price of chemicals, energy, textile, food products and metals continued to trail higher. The sustained increase in input costs led producers in some sectors to pass on the additional cost pressures to end consumers. The concerns over rising inflation led business confidence to also fall to a two-year low level.

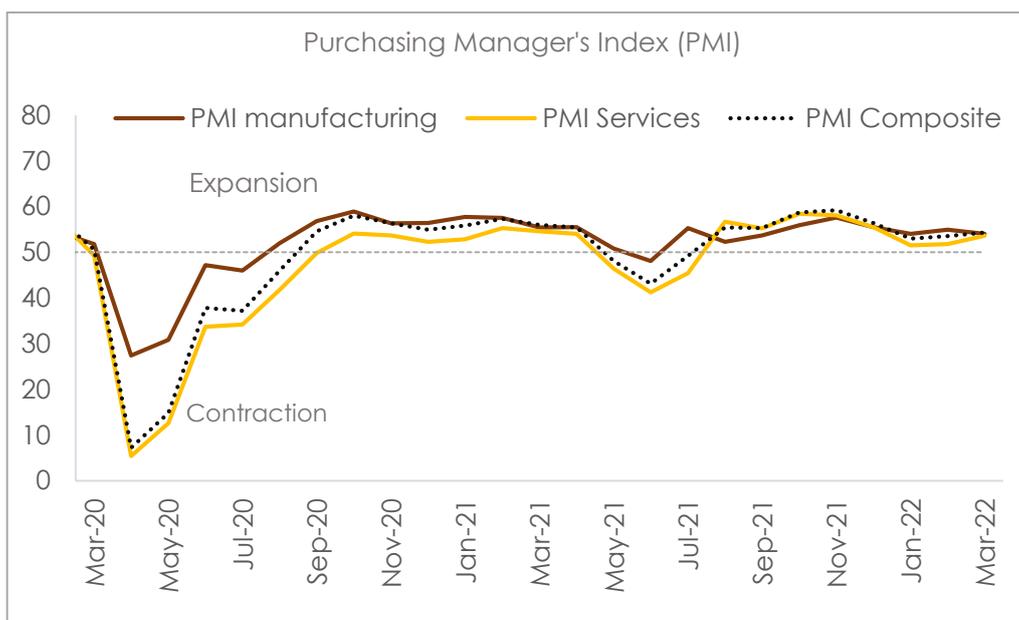
On the other hand, PMI services rose to 53.6 in Mar-22 from 51.8 in Feb-22 recording the strongest pace of expansion since Dec-21. The improvement was led by a revival in the contact intensive services on the back of normalization of consumer mobility, uptick in new business orders and strengthening demand conditions. The improving demand was primarily from the domestic market, while demand from the overseas market continued to decline. The narrative on the price front is similar to that of manufacturing sector. The service providers have been facing increased price pressures amidst the creation of global supply shock due to the ongoing standoff between Russia and Ukraine. This resulted in the sharpest upturn in input costs which rose to more than a decade high in Mar-22. Service providers also continued to transfer additional cost burdens to customers as higher prices have started to impact operating margins of the firm.

In essence, business confidence across manufacturers and service providers remained subdued led by continued rise in inflationary pressures. The amplifying hostilities between Russia and Ukraine has resulted in a sharp rise in prices of certain commodities such as crude oil, gas, wheat, fertilizers, coal, edible oils etc. which is

expected to gradually 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 risks to the domestic growth prospects given the disruption in the global commodity markets and the global supply chain of some products. The adverse impact of inflation and supply chain concerns on business sentiments may however be partly offset by several government initiatives and fiscal incentives that will help create a paradigm shift in manufacturing sector over the medium to long term. Some of these include the rollout of the PLI schemes for the manufacturing sector, extension of ECLGS scheme for MSME sector and introduction of a new law for ushering in reforms for SEZs.

Annexure

Chart 1: PMI manufacturing eases, PMI services improves marginally in Mar-22



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