Press Release

PMI indices remain resilient

Business and hiring sentiments, however, moderate due to rising growth risks

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At the end of the fiscal year 2023, the S&P Global PMI indices on both manufacturing and services continue to remain resilient. PMI Manufacturing has remained in the expansion territory for consecutive twenty one months since Jun-21, which was the peak of disruption during the pandemic. At 56.4 in Mar-23 vs 55.3 in Feb-23 and 54.0 a year back (Mar-22), the index reflects an underlying demand stability and optimism among the manufacturers despite increased global headwinds. On a quarterly basis, the index average stood at 55.7 in Q4FY23 vs 54.3 in Q4FY22. While the PMI Services moderated somewhat from the high of 59.4 in Feb-03 to 57.8 in Mar-23, it still remained in the top quartile for the year. The average of Q4 has been significantly higher at 58.1 vs 52.3 in the corresponding period of previous year, highlighting a strong pick up in the overall services sector in FY23. This has also driven the Composite PMI to a 5 year quarterly high of 58.3 in Q4FY23.

S&P Global reported that the growth of factory orders and production in Mar-23 quickened to the strongest in three months. With pressure on supply chains subsiding and raw material availability improving, input cost inflation has largely subsided. This along with demand resilience, has led to robust increases in purchases, supporting a near-record accumulation of input inventories in March. The latest data also highlighted a further upturn in new business placed with Indian manufacturers and even new export orders rose in March. That said, the PMI manufacturing average for the final fiscal quarter (55.7) came in below that recorded in the prior period (56.3 in Q3). Further, the overall level of positive sentiment in the manufacturing sector dropped to an eight-month low due to concerns surrounding competitiveness and general inflation.

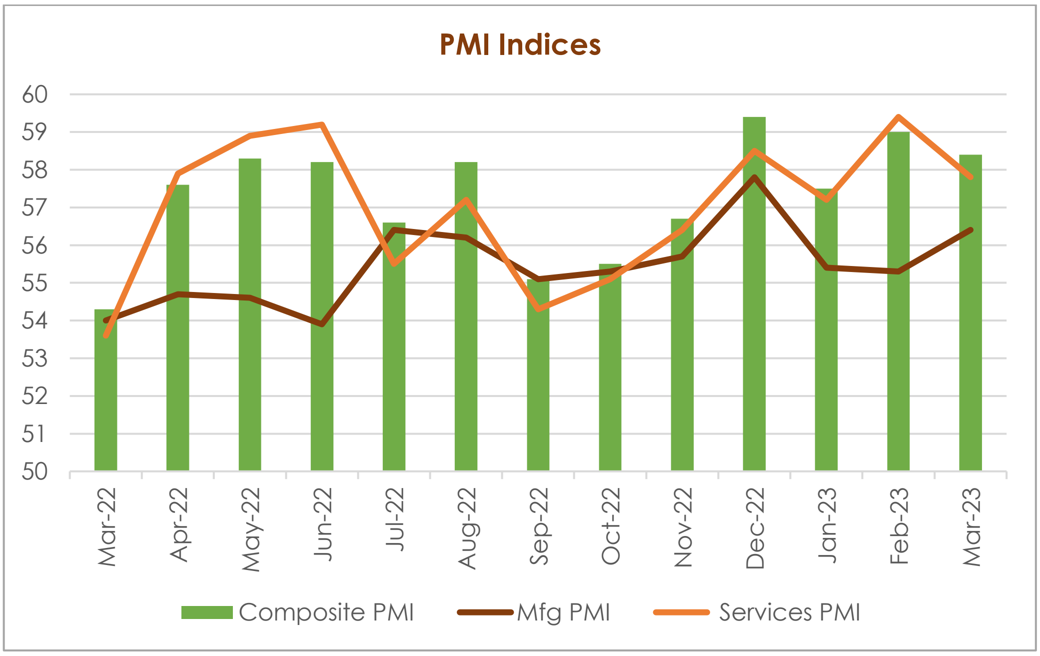
Posting 57.8 in March, the seasonally adjusted S&P Global India Services PMI Index was in growth territory (above 50.0) for the twentieth successive month. Service providers in India witnessed a healthy upturn in new work intakes at the end of the last fiscal quarter, leading to increased business activity. As has been the case for three successive months, all four broad areas of the service economy registered growth of new business and output. Consumer Services topped the rankings again on both fronts, while the slowest increases were seen in Real Estate & Business Services. The overall rate of input price inflation moderated to its lowest since September 2020. Despite falling from 59.4 in February and thereby indicating a slower rate of expansion, the latest index print was consistent with a substantial uptick in output. The rise in overall new business was supported by an improvement in external demand for their services. Backed by demand buoyancy, service providers shared part of their additional cost burdens with clients via an upward revision to selling prices.

Nevertheless, the overall level of positive sentiment fell to an eight-month low as several firms foresee no change in activity from present levels.

Despite falling from 59.0 in February to 58.4 in March, the S&P Global India Composite PMI Index reflects a healthy rate of expansion that was above its long-run average. Private sector sales grew for the twentieth consecutive month in March, amid sustained increases at goods producers and service providers. However, weakness was seen with regards to jobs, with broadly no change in employment seen either in services nor in manufacturing as a general lack of pressure on operating capacities and diminished confidence towards growth prospects prevented hiring activity.

Says Suman Chowdhury, Chief Analytical Officer, Acuité Ratings & Research "PMI indices indicate that a steady momentum exists in domestic economic activity. Going forward, we expect the consumption demand to pick up further amidst a healthy rural recovery and moderation of inflationary pressures. Separately, investment activity in private sector is expected to strengthen gradually as validated by improved capacity utilization levels, domestic production and imports of capital goods. Having said so, global growth conditions are fragile amidst confluence of factors such as the banking crisis in the US, continuing monetary policy tightening on the back of persistent inflationary pressures and lingering geopolitical uncertainties. The adverse impact of slowing global growth has already manifested in India's export performance in Q3/Q4 of FY23. Urban demand could feel the pinch of the lagged impact of 250 bps of repo rate tightening undertaken by RBI and the risks of weather pattern changes on agriculture exist. Considering these upside and downside factors we expect India's GDP growth at 6.0% in FY24, with some downside risk."

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



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