

Press Release

PMI Services logs a record high

Employment scenario, however, remains a concern

04-May-2023

The fiscal year has begun on an encouraging note for the economy with an upturn in S&P PMI indices on manufacturing and services sectors published by S&P Global. PMI Manufacturing index rose to a four month high of 57.2 in Apr-23 from 56.4 in Mar-23 and significantly higher than the 54.7 recorded in Apr-22. Importantly, the PMI Services index has reached an all time high of 62.0 vis-à-vis 57.8 in Mar-23 and 57.9 in Apr-22. This also led the PMI Composite index to climb to a record high of 61.6 in Apr-23.

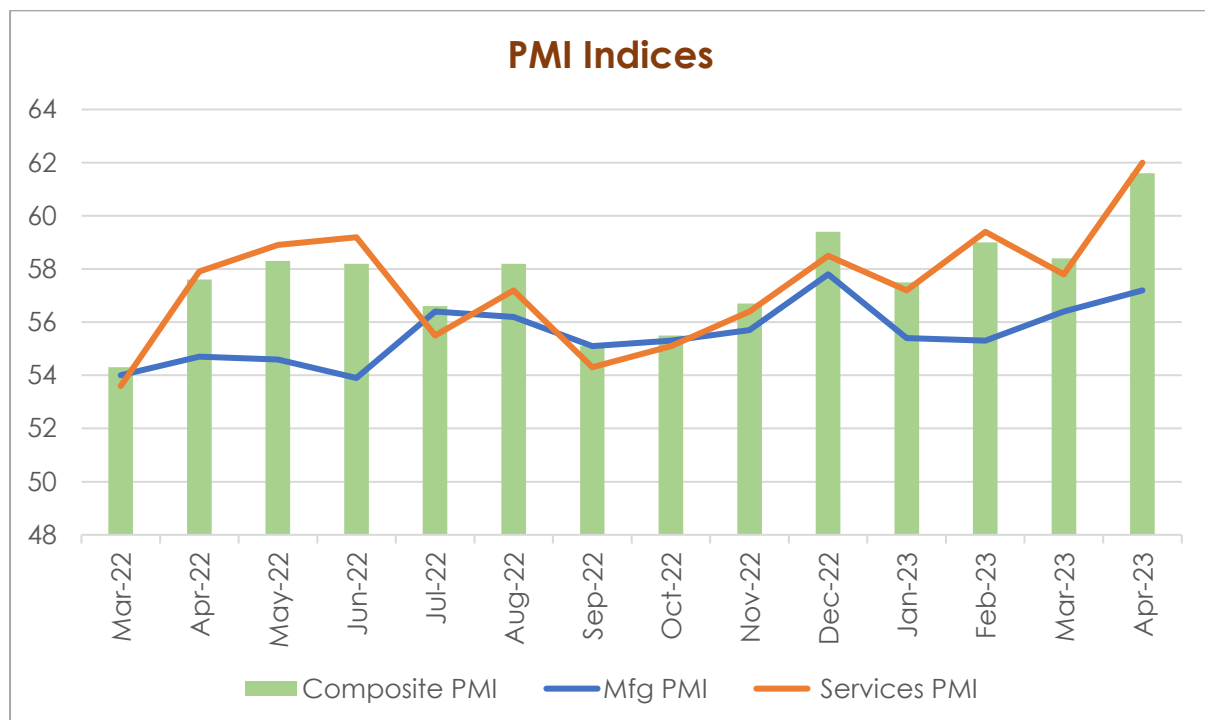
The latest PMI Manufacturing report for April-23 highlights that the operating environment for Indian manufacturing sector has become relatively more favourable with the rise in factory orders and production rose “at the strongest rates in calendar 2023 so far”, with companies ramping up input purchases to replenish stocks after the year end. Interestingly, more than one-quarter (26%) of all survey participants reported higher production volumes, citing sustained expansions in sales. The manufacturers also benefited from relatively mild price pressures, better international sales and improving supply-chain conditions. Despite the surge in purchasing activity, suppliers were able to deliver inputs in a timely manner during April. Although marginal, there was an upturn in employment in the manufacturing sector compared with a fractional reduction in March. Indian manufacturers exhibited confidence that production volumes would be higher in 12 months' time, amid demand resilience, client enquiries, orders pending approval and marketing efforts; the overall level of positive sentiment rose since March.

What is noteworthy is the spurt in the PMI Services index in Apr-23 to a record high beyond sixty. S&P Global says that “Service sector growth in India quickened substantially in April, with demand strength promoting the fastest increases in new business and output in close to 13 years.” Among the four monitored sub-sectors, the strongest increase in output was seen in Finance & Insurance. The survey participants highlighted an intensification of price pressures, with input costs and output charges rising at faster rates that exceeded their respective long-run averages. New export contracts expanded for the third month in succession and the pick-up in demand occurred in spite of escalating price pressures. The combination of rising input costs and demand resilience enabled the sector to raise their billing rates in April. Nevertheless, such optimism has not had any significant impact on job creation. The report says, “Despite the substantial pick-up in sales growth and improved business sentiment, the increase in employment seen in April was negligible and failed to gain meaningful traction.”

Given the rise in both indices, the PMI Composite index also touched a new high of 61.6 in Apr-23. The data indicates a substantial increase in output across the Indian private sector but hiring remained mild.

Says Suman Chowdhury, Chief Economist and Head-Research, Acuite Ratings & Research "PMI indices raise hopes that domestic consumption will continue to witness a healthy growth in H1FY24 with moderation of inflationary pressures. The services sector remains particularly buoyant with strong demand in travel and hospitality segment during the summer vacation. Nevertheless, the impact of increased interest rates and global uncertainties on domestic investment activity is likely to be visible. While the surveys indicate continuing business optimism, it's not yet reflected in a meaningful pickup in hiring be it manufacturing or services. The monsoon and its effect on agriculture sector is clearly an additional risk factor as of now. Our base forecast of India's GDP growth in FY24 continues to be at 6.0%, with some downside risk."

Chart 1: PMI Services reflects a buoyancy in the services sector while PMI Mfg shows steady uptick



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