

Press Release

PMI print indicates ongoing recovery despite inflation threat 11-yr high PMI Services highlight pent up demand in contact intensive sectors

04 June 2022

PMI Manufacturing for the month of May-22, remained broadly unchanged at 54.6 from 54.7 in Apr-22 indicating a sustained recovery across the sector. Export orders and production rose at a similar rate as was recorded in Apr-22. Despite continued uptick in selling prices, overall new orders showed resilience in May-22 with export orders increasing at a fastest pace since Apr-11. Sustained improvement in demand and new business gains led manufacturers to continue to scale up production in May-22 and increase the pace of hiring. On the price front, input costs continued to rise with firms reporting higher prices for electronic components, energy, freight, foodstuff, metals and textiles. On the other hand, output charges surged to its highest in over 8.5 years as companies continued to transfer additional cost burdens to their clients.

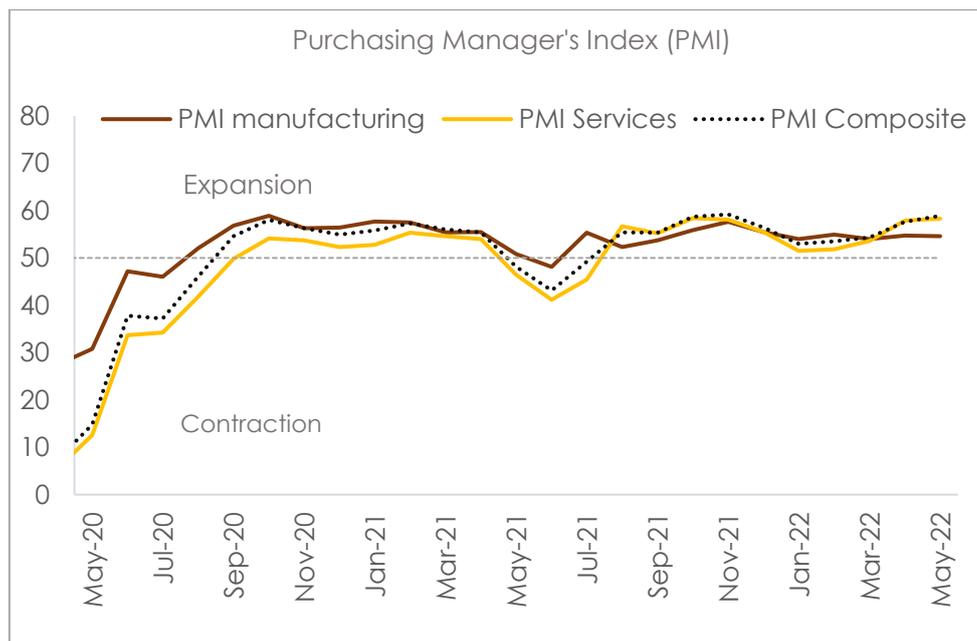
PMI services scaled to an 11-year high of 58.9 in May-22 from 57.9 in Apr-22. The improvement has been led by the ongoing revival in the contact intensive services, uptick in new business orders and strengthening demand conditions. The narrative on the price front remained similar to that of manufacturing sector. The input prices rose to the highest level in nearly 17 years with the service providers citing rising price pressures in food, fuel, labour, material, retail and transportation costs. With increasing pressure on the operating margins, service providers hiked their selling prices further, albeit at a softer pace as compared to Apr-22.

Improvement in PMI manufacturing and services led composite PMI to also increase to 58.3 in May-22 from 57.6 in Apr-22. However, business confidence amongst manufacturers and service providers remained subdued led by continued rise in inflationary pressures. The sharp rally in commodity prices and inputs costs for the industrial sector in the aftermath of the ongoing Russia-Ukraine war has started to dent producer margins as pass-through to consumers remains incomplete amidst subdued demand. The geopolitical crisis is also likely to prolong supply bottlenecks and act as an added dampener for both manufacturing and services sector.

Says Suman Chowdhury, Chief Analytical Officer, Acuite Ratings & Research “The healthy PMI print of Apr-May’22 raises hopes on the strength of the current economic recovery despite the strong inflationary headwinds. The momentum in PMI services largely reflects the play out of pent up demand in contact intensive sectors such as travel, hospitality and entertainment. As the economy frees itself completely from the shackles of the prolonged pandemic, we expect the services sector to play a dominant role in the growth dynamics vis-à-vis the manufacturing sector. Although the base factor will not be that supportive, we have retained our GDP growth forecast for FY23 at 7.2% given a stronger than expected recovery in the services sector boosted by the high vaccination coverage along with other drivers such as higher public capital expenditure, a pickup in private sector investments and no negative surprise on the southwest monsoon front.”

Annexure

Chart 1: PMI services rises to an 11-year high in May-22, manufacturing remains steady



About Acuité Ratings & Research Limited:

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