Press Release

PMI trajectory raises hopes of better growth recovery in Q3FY22

8 November, 2021

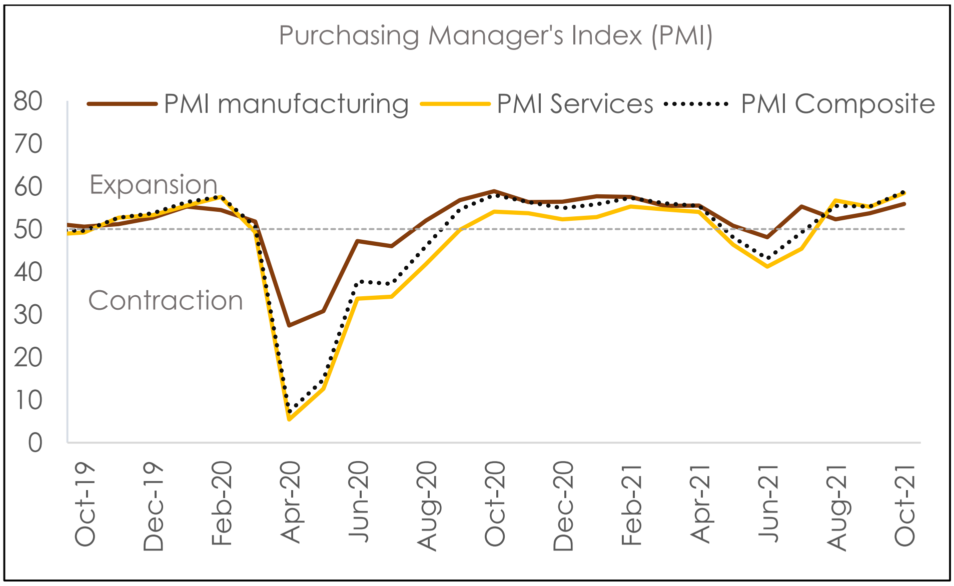
India's steady economic recovery continued to reflect in PMI manufacturing with index rising to an eight-month high of 55.9 in Oct-21 from 53.7 in Sep-21. Amidst improving demand scenario in the festive season and positive market sentiments, new orders from domestic as well as international market gained further traction prompting manufactures to ramp-up production. In order to accommodate for rising sales and production levels the pace of input buying rose at a fastest pace since Apr-21. However, rising fuel, raw material shortages and higher transportation cost lead input cost inflation to rise at a sharpest rate since Feb-14, subsequently leading some companies to pass on cost increases to consumers. Nevertheless, with majority of firms opting to limit the pass through of higher input costs, the overall rate of inflation rose at a slower pace. The overall degree of optimism in the manufacturing sector strengthened to a six-month high amidst upbeat business confidence and improving consumption demand.

PMI services rose to more than a decade high of 58.4 in Oct-21 from 55.2 in Sep-21 led by removal of almost all lockdown restrictions, improving demand conditions for contact intensive services, reopening of establishments, and enhanced marketing efforts. New work intakes accelerated at a strongest pace since Jul-11 leading to a healthy rise in job creation. While domestic demand remained strong, the data continued to point to weak international demand for Indian services, a trend that has been recorded since the onset of the pandemic possibly due to the impact on the tourism sector. On the price front, with continued rise in input cost inflation (which rose to a 6-month high in Oct-21), service providers opted to pass on cost burdens to consumers leading output prices to rise to nearly a 4-year high. As per the survey, although there was some degree of confidence in business activity, rising price pressures fueled some fears over recovery leading overall sentiment to trail well below its long run average.

Q3 FY22 began on a good note with strong pick up in manufacturing as well as services sector leading India's composite PMI to increase to 58.7 in Oct-21 from 55.3 in Sep-21. The improvement is in line with Global composite PMI which rose by 54.5 in

Oct-21 from 53.3 in Sep-21 with accelerated output growth in countries such as the US, UK, and China. Globally companies maintained a positive growth outlook, forecasting that economic activity would be higher one year from now. On the domestic front, we expect the manufacturing PMI to remain strong in the remainder of FY22 amidst a near complete removal of lockdown restrictions, festive and pent-up demand. Similarly, the ebbing of infections, rising consumer footfalls and steady progress on vaccination with more than 50% of the population having received a single dose, bodes well for the pickup in contact intensive service sectors. However, as compared to most G-20 economies, India's percentage of fully vaccinated population stands currently lower at around 24% (Source: Our World in Data). In order to achieve a sustainable and durable recovery in contact intensive sectors, an accelerated vaccine coverage is warranted to mitigate the risk of any future Covid waves. With the expected pick up in the contact intensive sectors, the ongoing revival in private consumption, a favourable kharif crop estimate, continuing buoyancy in exports and also the accommodative policy environment, we continue to stick to our FY22 GDP growth forecast of 10.0%. While we expect manufacturing as well as services PMI to remain strong in H2 FY22, any continuous rise in inflationary pressures could act as a downside risk.

Chart 1: PMI in both manufacturing and services show an upward trajectory



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