Press Release

PMI indices display resilience despite external headwinds

Business sentiment buoyant, employment picks up in both manufacturing and services

04-Nov-2022

PMI Manufacturing continued to remain in the expansion territory for the sixteenth consecutive month at 55.3 in Oct-22 vs. 55.1 in Sep-22, underscoring a marginal improvement in the index despite the external risks marred by slowing global growth and continued global policy tightening amidst increased price pressures. Domestic factory orders continued to rise at an above trend pace, while export orders also picked up somewhat unexpectedly, leading to modest capacity expansion and pick-up in employment level. Interestingly, manufacturing employment increased at a marked rate that was one of the strongest since data collection started in March 2005. Price pressures remained broadly unchanged in Oct-22 as compared to the previous month where input cost pressures remained lower given moderating commodity prices; this also helped the output prices to ease significantly. At the granular level, consumer goods segment was the best-performing sector signaling the fastest increase in output and overall sales amid festive demand.

Festivity induced favourable demand for the services sector led the PMI Services index to improve to 55.1 in Oct-22 from 54.3 in Sep-22. As per the survey participants, sustained increase in new business boosted the overall output. New business gains were primarily from the domestic market, with international sales decreasing further in Oct-22. Service providers however, signaled an increase in their operating expenses during the month, owing to higher, food, fuel, and retail prices. This led selling prices to rise once again at an above-trend pace. At the sub-sector level, Consumer Services followed by finance & insurance, transport and information and communication led growth of business activity, new orders, and employment.

The modest improvement in manufacturing as well services PMI led the composite Index to increase marginally to 55.5 in Oct-22 from 55.1 in Sep-22. While the business sentiment amongst manufacturers witnessed a moderate decline over the last three months, they remained confident of rise in production volumes by Oct-23. However, the sentiment of service providers towards the year-ahead outlook for business activity improved to the highest in close to eight years.

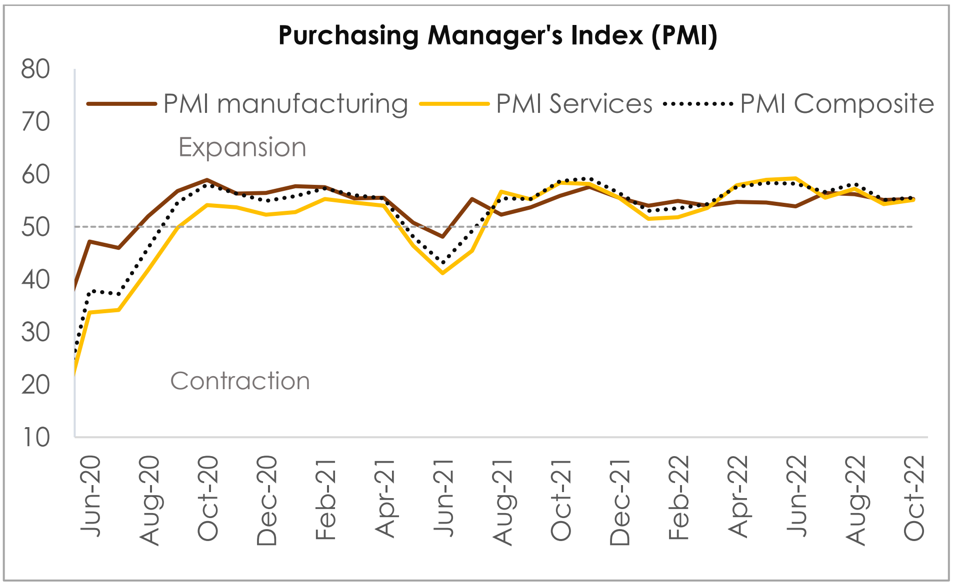
On the other hand, Global manufacturing PMI contracted for the third consecutive to a 28-month low of 49.4 in Oct-22 from 49.8 in Sep-22 led by weaker intakes of new business, deteriorating international trade flows and lower business confidence. China, the Euro area, and Japan were among the larger manufacturing economies to see output contract during October. However, production levels rose in the US, albeit at a slower pace. As compared to the global peers, India seems to be better placed with the PMI manufacturing recording the highest expansion amongst the 30 economies tracked by IHS Markit.

Going forward, we expect domestic demand to remain supported by the festive heavy H2 FY23, pent-up demand playing out especially in services and kharif harvest that would support agriculture output and farm incomes. Capex oriented public expenditure continues to offer the much-needed fiscal impulse, and would hopefully benefit manufacturing capacity utilization further, which has recovered to above pre-pandemic levels, at 72.4% as of Jun-22. Having said so, we also acknowledge growing downside risks to our FY23 GDP growth estimate of 7.20% largely on account of build-up of adverse global factors namely tighter global financial conditions, higher interest rates, elevated geopolitical uncertainty, and persistently high inflation.

Says Suman Chowdhury, Chief Analytical Officer, Acuité Ratings & Research " The average PMI in manufacturing and services in the Apr-Oct'22 period stood fairly entrenched in the expansion zone at 55.2 and 56.9 respectively, implying a growth of 6.5% and 12.2% over the corresponding period of the pre-pandemic FY20. Both the indices have been consistently in the expansion zone for 15-16 months since the second wave of the pandemic. The recovery in domestic demand particularly in services has facilitated such a resilience in the domestic PMI despite the weakness in the global PMI indices. "While the inflation levels remain high, the business sentiment continues to hold up, reinforcing hopes of a ~7% GDP growth in the current fiscal."

Annexure

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



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