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Press Release

Seasonality partly behind the moderation in PMI print

Festive season and commodity price correction keep business sentiments upbeat

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PMI Manufacturing continued to remain in the expansion territory for the fourteenth consecutive month coming in at 55.1 in Sep-22 vs. 56.2 in Jul-22 despite the sequential decline which can be partly attributed to the monsoon related seasonality. While a strong buoyancy is not visible at this stage, the domestic manufacturing sector continues to be good health amidst considerable global headwinds such as stubborn inflationary pressures, continued policy tightening by major central banks across and global recessionary fears. A coalition of favorable factors such as demand resilience, sustained increase in new work intakes and expanded operating capacities helped the index to sustain its momentum. That said, higher sales and increased production levels boosted employment in the month of Sep-22. On the price front, lower price pressures helped input cost to rise at the slowest pace in two years. Sustained input buying supported firms in their efforts to lift pre-production stocks before the onset of festivities. The moderating input cost pressures also helped the output prices to ease to a seven-month low.

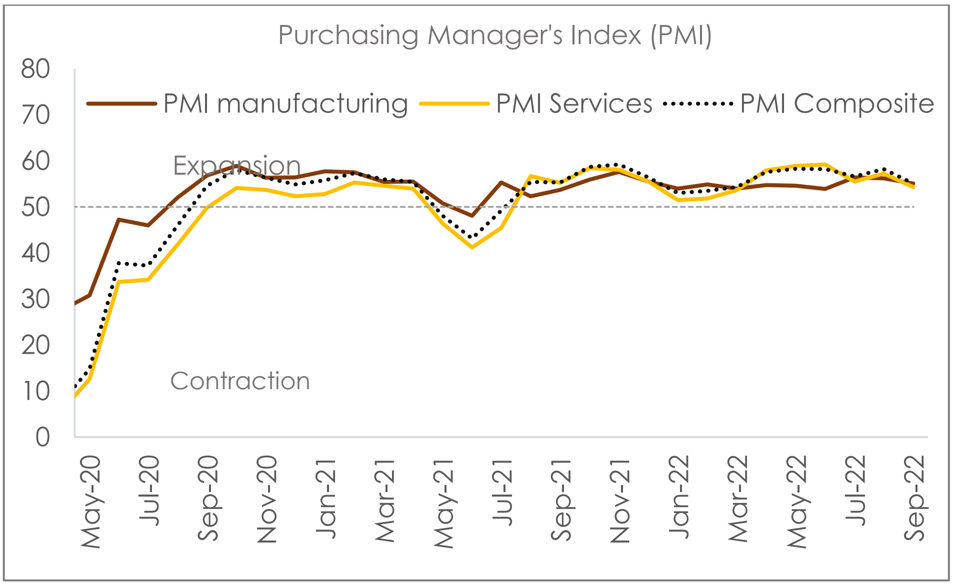
PMI services recorded the weakest pace of expansion in Sep-22 at 54.3 from 57.2 in Aug-22. The moderation in services activity was primarily on account of softer output and new business inflows particularly in Transport and IT sector, the latter being vulnerable to the global slowdown. Weak external demand weighed on overall sales, with international orders declining further in Sep-22. Service providers signaled a further increase in their operating expenses during the month, owing to higher energy, food, labor and material costs.

The easing of manufacturing as well services PMI led the composite Index to moderate to 55.1 in Sep-22 from 58.2 in Aug-22. Nevertheless, the business sentiment amongst manufacturers and service providers continued to gain traction with the levels rising to seven and a half year high benefiting from moderation in price pressures. Global manufacturing PMI, on the other hand, slid into contraction for the first time since Jun-20 coming in at 49.8 in Sep-22 from 50.2 in Aug-22 amidst the deterioration in new work intakes and contraction in international trade flows. Barring the US which registered a marginal expansion, the other G4 economies recorded a minor downturn coming in below the 50-mark. As compared to the global peers, India seems to be better placed with the PMI manufacturing recording second highest expansion after Taiwan amongst the 30 economies tracked by IHS Markit.

Going forward, domestic demand conditions is expected to remain favorable amid combination of festive heavy H2 FY23, pent-up demand (esp. for services) and kharif harvest that would support agriculture output and farm incomes. Additionally, likely bonus pay-outs and hike in dearness allowance for government employees, could further support discretionary consumption thereby keeping manufacturing sector buoyant. Capex oriented public spending 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 74.3% in Q1FY23 (RBI). Having said so, we acknowledge growing downside risks to our FY23 GDP growth estimate of 7.20% largely on account of build-up of adverse global factors such as the tightening of global financial conditions, elevated geopolitical uncertainty and persistent inflationary concerns due to the ongoing rupee depreciation. These factors could dampen external demand and weigh on India's manufacturing as well as services sector.

Annexure

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



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