New biz lifts Dec services PMI to six-month high

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New Delhi, 4 January

Services activity recovered to a six-month high in December as firms witnessed a quicker upturn in new business that boosted output growth. Companies linked the upturn to robust intakes of new work and favourable market conditions.

The Purchasing Managers' Index (PMI) for the services sector released by credit rating agency S&P Global improved to 58.5 in December from 56.4 in November, as the survey showed an expansion in both the output and job creation.

A print above 50 in the survey denotes expansion. Below that suggests a contraction in services activity. The headline figure has been in the expansion zone for seventeen consecutive months since August 2021.

The survey noted that more jobs were created as service providers readjusted their capacities to accommodate for rising new business, and, the companies remained strongly upbeat towards the year ahead.

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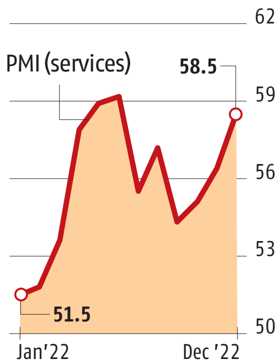
Pollyanna De Lima, economics associate director at S&P Global Market Intelligence, said the Indian services providers saw an expansion in Indian services activity, underscoring the resilience of demand at the end of 2022.

"Positive sentiment and ongoing growth of new business continued to support job creation, but there were areas where capacities were reportedly adequate to cope with current requirements," she added.

STRONG UPTICK



Note: PMI is in points; Source: S&P Global

Madhavi Arora, lead economist, Emkay Financial Services explains that the Indian services sector has been witnessing growth in the recent months, compared to services in other emerging market economies due to the domestic demand that was generated by the festive rush. Moreover, the economy has been relatively insulated from the global headwinds and recessionary fears.

"The positive momentum generated is expected to continue in the near term as the relatively better performance of both the manufacturing and services firms in December will translate into higher growth in the third quarter, and also reflected in the upcoming advance estimates at the end of this week", she adds. However, the firms noted a sharp rise in their expenses — amid greater energy, food, staff and transportation costs — which led to a further increase in prices charged for the provision of services.

"Input costs at services companies rose further, with companies mentioning wage pressures and higher prices for energy, food and transportation. The overall rate of inflation quickened from November and was above its long-run average. By sector, input cost inflation was most acute in Consumer Services," the survey notes.

"Although easing from November, the rate of output charge inflation remained elevated as several companies felt the need to transfer escalating costs through to clients," De Lima added.

The expansion in the services sector comes in the wake of record expansion in the PMI manufacturing figure. Earlier this week, the headline PMI figure for the manufacturing sector rose to 57.8, marking the highest increase in new factory orders and production in 26 months.

In December, the International Monetary Fund (IMF) had cautioned that a sharp global growth slowdown in the near term would affect India through trade and financial channels. It projected India's growth to ease to 6.1 per cent in FY24 from an estimated 6.8 per cent in FY23 due to a less favourable global outlook and tighter financial conditions.

However, Fitch Ratings, while reaffirming India's sovereign rating at the lowest investment grade with a stable outlook, said India was somewhat insulated and hence could be reckoned out of the likely gloomy global scenario in 2023, given its modest reliance on external demand.