Services PMI falls to 6-month low

SHIVA RAJORA
New Delhi, 6 October

India's services activity expansion fell to a six-month low in September as new business inflows and output increased at the slowest rates since March, amid inflationary pressures and competitive conditions that, in turn, dampened job creation.

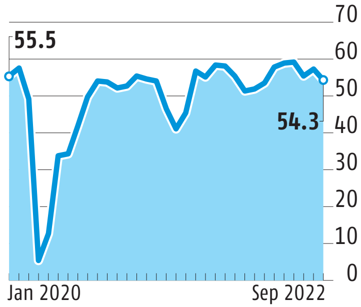
The Purchasing Managers' Index (PMI) for the services sector released by S&P Global dipped to 54.3 in September, from 57.2 in August, as weak external demand weighed on overall sales, with international orders declining further during the month. A print above 50 in the survey denotes expansion. Below that mark, it suggests contraction in services activity.

"Softer increases in output and new business were seen in each of the four broad areas of the services economy. In both cases, the fastest expansions were seen in consumer services and the slowest in transport, information and communication," the survey said.

Pollyanna De Lima, economics associate director at S&P Global Market Intelligence, says an upturn in inflation could damage consumer spending, dampen business confidence, and test the resilience of the Indian services sector in the months to come.

"The steep depreciation of the rupee seen towards the end of the month due to interest rate hikes in the US presents additional challenges to the Indian economy. Currency instability poses renewed inflation worries as imported items become costlier, and undoubtedly means that the Reserve Bank of India (RBI) will continue hiking interest rates to protect the rupee and contain price pressures," she adds.

TRACKING THE CURVE



PMI is in points. A print above 50 denotes expansion, while one below it indicates contraction

Source: S&P Global

Rahul Bajoria, managing director, Barclays Corporate and Investment Bank, says a lower services PMI than the manufacturing PMI signals consolidation in domestic demand, albeit at healthy levels of activity.

"The signal from Thursday's PMI data is essentially one of consolidation, which is also visible across a host of other macro variables, including tax collections, fuel consumption, and mobility data such as rail and aviation traffic. Still, the overall resiliency in services PMI should keep growth broadly on track to hit 7 per cent for 2022-23 (FY23)," says Bajoria.

Manufacturing PMI dipped to a three-month low at 55.1, revealed the data released on Monday. Amid intensifying global headwinds, the RBI on Friday pared its growth forecast for FY23 to 7 per cent, from 7.2 per cent estimated earlier.

"The headwinds from extended geopolitical tension, tightening global financial conditions, and possible decline in the external component of aggregate demand can pose downside risks to growth," RBI Governor Shaktikanta Das said in his monetary policy statement on Friday.

The Organization for Economic Co-operation and Development (OECD) and S&P last week kept their growth forecasts for India unchanged at 6.9 per cent and 7.3 per cent, respectively, for FY23. They had highlighted the growing downside risks. "Softer external demand is a factor in India's projected slowdown from 8.7 per cent annual growth in 2021-22 to around 7 per cent in FY23 and around 5.75 per cent in 2023-24. However, this still represents rapid growth in the context of a weak global economy," OECD said in its interim Economic Outlook.