Press Release

PMI print continues to keep alive strong growth hopes in FY23

Improved demand with moderating cost pressures keeps business sentiments upbeat

07-Sep-2022

PMI Manufacturing continued to tread on a steady path with the index remaining fairly stable at 56.2 in Aug-22 vs. 56.4 in Jul-22. A confluence of favorable factors such as improvement in demand conditions, pick up in new business orders and strong output growth helped the index to sustain its momentum. Higher sales before the onset of festive season, improved capacities, and elimination of all Covid restrictions have led Indian manufacturers to report the fastest increase in production in nine-months. The narrative on the supply-side also exhibited some recovery with further improvement in delivery times as supply-chain bottlenecks ease. On the price front, inflation concerns seem to have partially abated as the rate of input cost rises softened to a one-year low, however, there was additional pass through of higher freight, labour, and material costs, leading to some upward revision in output prices. The easing of input cost pressures also led the business sentiment to strengthen further from a 27-month low in Jun-22. The degree of optimism was at its highest in six years. The predictions of stronger sales, new enquiries and marketing efforts all boosted confidence in Aug-22.

PMI services also recouped some of its lost momentum rising from a four-month low of 55.5 in Jul-22 to 57.2 in Aug-22. The rebound was on the back of new business gains amid reports of favorable demand conditions and successful advertising efforts. At the sub-sector level, there were quicker increases in new business and output in Transport, Information & Communication and Finance & Insurance. Amid resilient demand conditions, service providers opted to protect their margins from cost increases by raising their selling prices. While output charges for Consumer and Real Estate & Business services rose at quicker rates, there was a slowdown for Finance & Insurance and Transport, Information & Communication fees. Nevertheless, the business sentiment strengthened significantly for the services sector, reaching its highest level since May-18.

With aggregate output growth and new work orders in manufacturing as well as services, the composite PMI also recorded an expansion from 56.6 in Jul-22 to 58.2 in Aug-22.

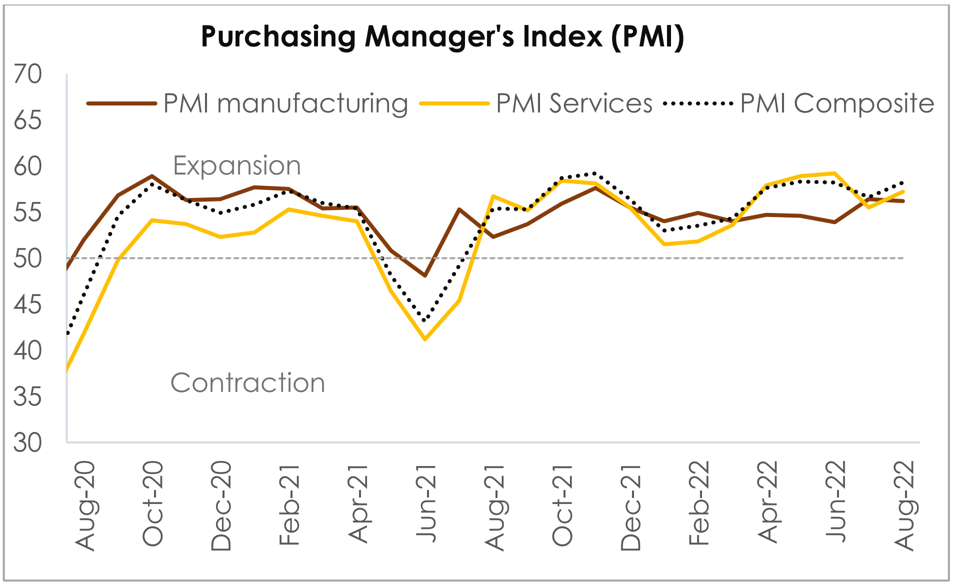
Domestic demand conditions is expected to remain favourable amid combination of festive heavy H2 FY23 and pent-up demand (esp. for services) amidst high vaccination coverage. Expectation of a further moderation in inflation, along with likely bonus pay-outs and expected hike in dearness allowance for government employees, could further support discretionary consumption thereby keeping both the manufacturing and the service sectors 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 74.5% as of Mar-22.

While the domestic economy appears resilient at this stage, downside risks do remain due to adverse global factors (like tightening of global financial conditions, higher interest rates, elevated geopolitical uncertainty, etc.) that can constrain external demand significantly in H2 FY23. The IMF in its Jul-22 World Economic Outlook update had slashed its 2022 global growth forecast by 40 bps to 3.2% and trade volume growth by 90 bps to 4.1%. While we continue to remain optimistic about the domestic growth scenario, the dip in the external demand due to weakening global growth and rising interest rates could offset these gains. Considering the lower than expected GDP print in Q1 FY23 (13.5%), we see a downside risk of 30-40 bps to our full-year GDP growth projection of 7.5%.

Says Suman Chowdhury, Chief Analytical Officer, Acuité Ratings & Research "The onset of the festive reason, the moderation in commodity prices and the improved business outlook, as reflected in the PMI for Aug-22, have still kept alive the expectations of a 7.0%+ GDP growth in the current fiscal. Nevertheless, the weakness in export momentum due to global headwinds and the uneven distribution of monsoon may pose risks to the growth trajectory."

Annexure

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



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