

Press Release

PMI manufacturing and services moderate to a 3-month low Sentiments dampened by increasing Covid cases and inflationary pressures

6-January-2022

India's PMI manufacturing eased to 55.5 in Dec-21 from a 10-month high of 57.6 in Nov-21. Nevertheless, it has continued to trail in the expansion zone for the sixth consecutive month. Improving demand scenario from domestic as well as international markets led to a rise in new orders in Dec-21 albeit at a slower pace. This induced firms to continue with their inventory build-up as also evidenced by robust upturn in input buying levels. On the price front, input cost inflation is still hovering close to eight-years high with companies facing high price pressures for a wide range of items including chemicals, food items, electronic components, metals, and textiles. However, a majority of the firms decided to keep selling prices unchanged to generate higher demand, leading output prices to rise only marginally.

PMI services also moderated in Dec-21 to a three-month low of 55.5 from 58.1 in Nov-21. While the services sector reported a growth in business activities, the pace of expansion moderated. The underlying data revealed that the increase in new orders was primarily led by re-opening of establishments in the domestic market. Meanwhile, new work orders particularly related to travel and tourism from international market fell due to rise in Covid cases globally. Moderation in work orders led payroll numbers to remain unchanged from Nov-21 levels with firms suggesting that the current employment levels were adequate to cope up with existing workloads. Encouragingly, price pressures in the services sector showed signs of easing in Dec-21 as both input and output cost rose at the slowest pace in the past three months.

The moderation in both PMI of manufacturing and services sector led composite PMI index to ease to 56.4 in Dec-21 from 59.2 in Nov-21. Despite easing marginally, buoyant performances in Oct-Nov'21 led the average index in Q3 FY22 for both PMI manufacturing and services to rise to three quarters high. While manufacturers and service providers were optimistic that output would continue to increase in 2022, overall business sentiment has been partly dampened by concerns surrounding supply-chain disruptions, surge in Covid infections and the consequent risk of fresh lockdowns as well as inflationary pressures. Going forward, while progress in the pace

of vaccination, strong government spending along with continued monetary policy support is expected to keep India's growth recovery largely on track, the fresh surge in infections led by a new virus variant may slow down that pace to some extent although we believe that the economic impact of any such third wave would be much lower.

Annexure

Chart 1: PMI manufacturing and services dip marginally in Dec-21

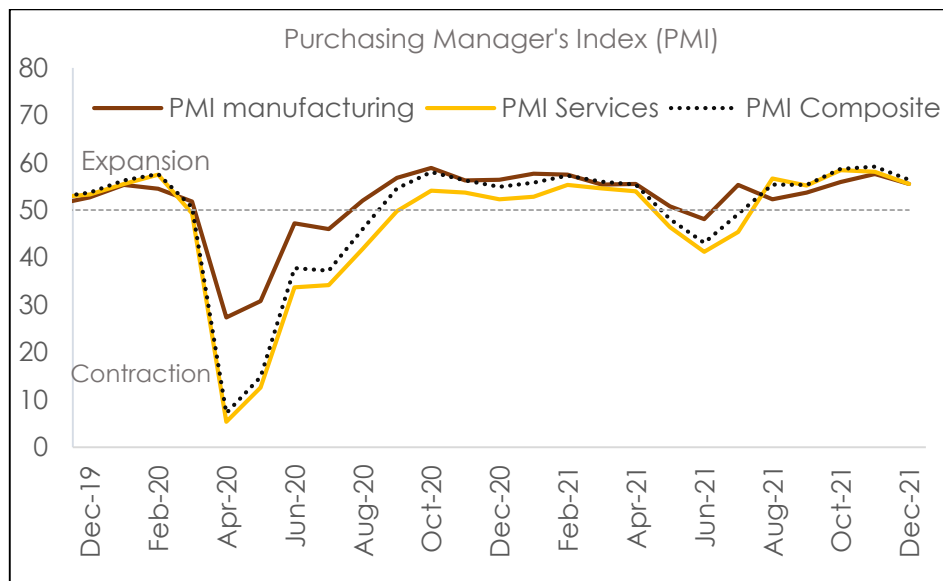
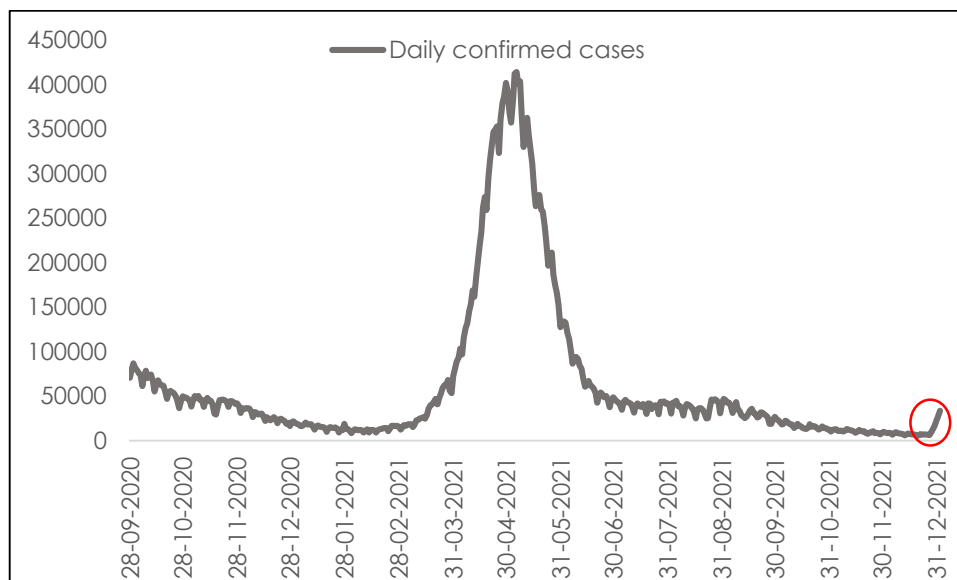


Chart 2: Covid infections have recently started recording an uptick



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