Press Release

PMI: Manufacturing at 9-month low, Services at 11-year high

Robust PMI Services print highlights pent up demand in contact intensive sectors

06 Jul 2022

PMI Manufacturing for the month of Jun-22, slid to a nine-month low of 53.9 from 54.6 in May-22, led by moderation in production levels, factory orders and input purchases amidst elevated price pressures. Notwithstanding, the sequential dip, the performance of the manufacturing sector has remained largely resilient in Q1 FY23, despite global headwinds getting stronger, rise in interest rates and significant rupee depreciation. As per the survey, new export orders rose in the month of Jun-22, albeit easing from May's 11-year high level. On the price front, input as well as output price pressures retreated to a three-month low, however, it remained above the respective long-run averages. That said, the sub-index tracking delivery times of goods rose above 50-mark for the first time since the onset of Covid, indicating the easing of supply-chain pressures. A similar trend was also seen in the Global Supply Chain Pressure index which has declined in May-22 from a spike recorded in Apr-22.

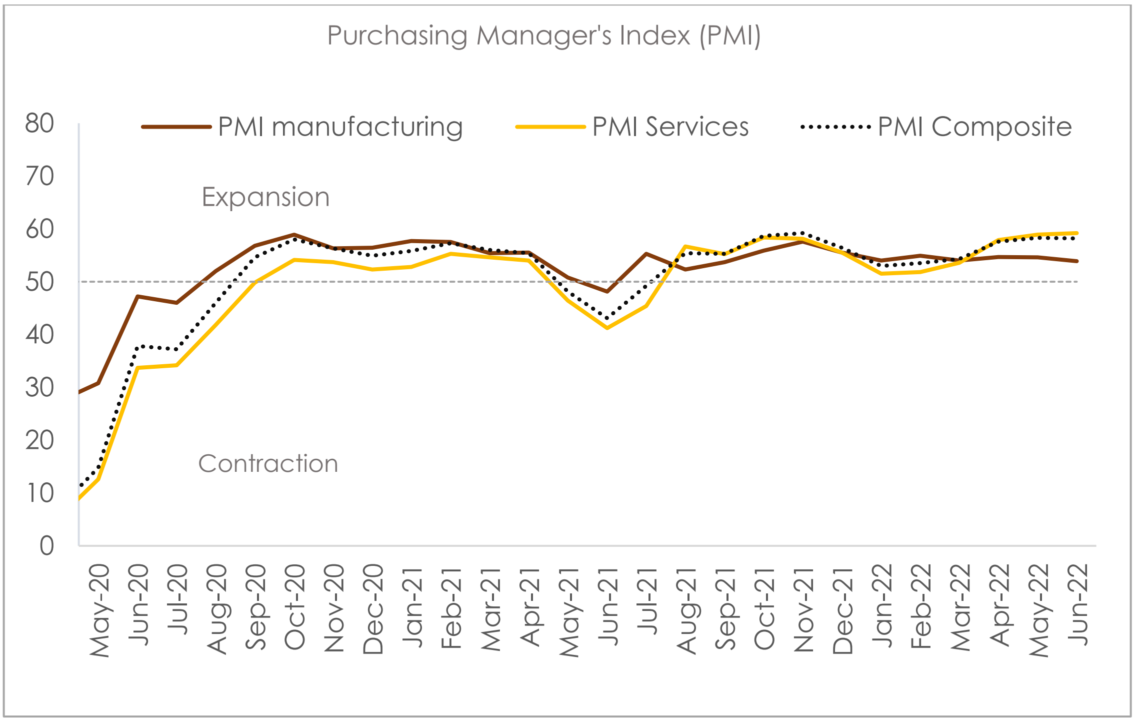
On the other hand, PMI services scaled to an 11-year high of 59.2 in Jun-22 from 58.9 in May-22. The improvement has been led by the ongoing revival in the contact intensive services, uptick in new business orders and strengthening demand conditions. The narrative on the price front remained similar to that of manufacturing sector. Despite easing marginally, rate of input cost inflation remained elevated by historical standards with service providers citing rising price pressures in food, fuel, labour, material, retail, and transportation costs. With increasing pressure on the operating margins, service providers hiked their selling prices further, albeit at a softer pace as compared to May-22.

Overall business confidence amongst manufacturers and service providers remained subdued led by continued rise in inflationary pressures. The rally in commodity prices and inputs costs for the industrial sector in the aftermath of the ongoing Russia-Ukraine war has moderated producer margins as pass-through to consumers remains incomplete amidst subdued demand. Going forward, we expect services as a sector to continue to recuperate at a somewhat faster clip than manufacturing sector, benefitting from complete opening up of the economy and nearly 70% of the population getting fully vaccinated. The trend in the manufacturing space also appears to be stable currently as also underscored by capacity utilization which is back to its pre-covid levels at 74.5% in Q4 FY22 from 72.4% in Q3.

Keeping in mind the support factors, we retain our FY23 GDP growth at 7.5% with some downside risk. The global spill over from higher commodity prices, slowing world growth and a swift monetary policy normalisation (both global and domestic) are downside risks that are likely to slow down the growth momentum.

Annexure

Chart 1: PMI services rises to an 11-year high in May-22, manufacturing eases further



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