Press Release

Healthy PMI despite growth concerns

Domestic demand and easing prices pressures keep business sentiments upbeat

05-Dec-2022

PMI Manufacturing continued to remain in the expansion territory for the 17th consecutive month at 55.7 in Nov-22 vs. 55.3 in Oct-22, underscoring an underlying demand resilience despite increased global headwinds. This led domestic factory orders and production levels to increase to a three-month high, exerting pressure on capacity levels. Improvement in production levels led manufacturing employment to improve to a 9-month high. Input price pressures continued to ease amidst moderating commodity prices and facilitated a slower increase in output prices. At the granular level, consumer goods segment was the best-performing sector signaling the fastest increase in output and sales amid festive demand.

Strong demand environment led the services sector to improve to 56.4 in Nov-22 from 55.1 in Oct-22. As per the survey participants, sustained increase in new business boosted overall output. Sustained expansions in new work intakes and demand buoyancy continued to promote job creation in the service economy, leading employment to rise to a three year high level. While new business gains were primarily from the domestic market, Nov-22 data showed the first upturn in new business from international market since the onset of the pandemic. Service providers signaled an increase in their operating expenses during the month, owing to higher, food, fuel, and retail prices, leading prices to rise once again at an above-trend pace.

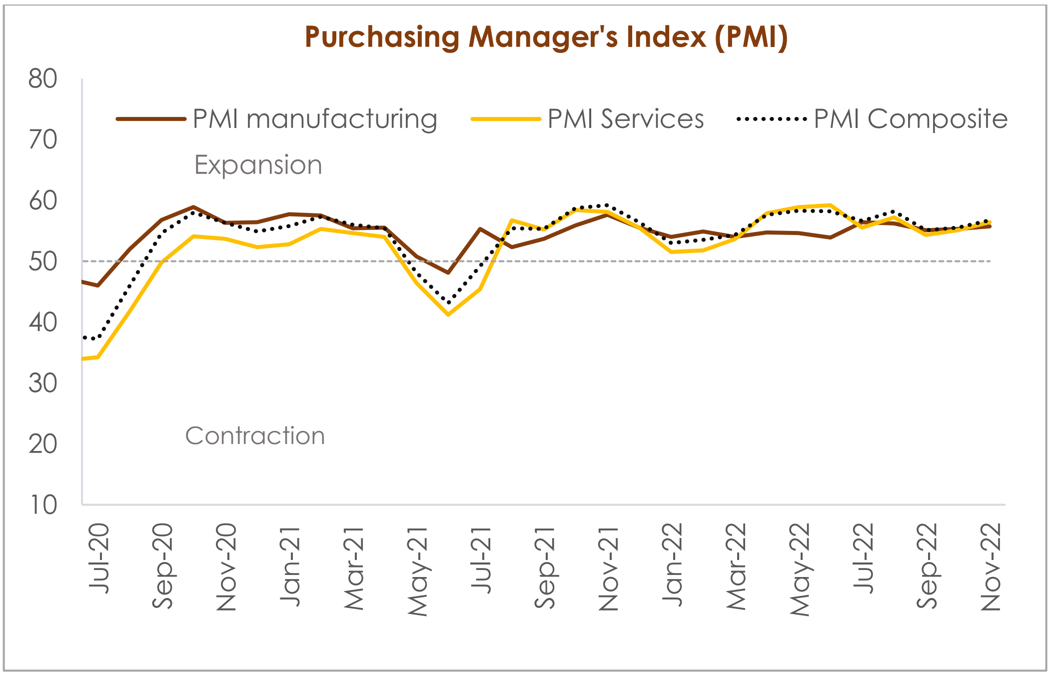
The improvement in manufacturing as well services PMI led the composite Index to increase to 56.7 in Nov-22 from 55.5 in Sep-22. Encouragingly, one-year ahead business confidence for manufacturers as well as service providers remained buoyant with firms expecting the demand strength to remain stable in 2023. On the other hand, Global manufacturing PMI, contracted for the fourth consecutive month to a 29-month low of 48.8 in Nov-22 led by weaker intakes of new business, deteriorating international trade flows and lower business confidence. China, the Euro area, and Japan were among the larger manufacturing economies to see output contract during Nov-22. As compared to the global peers, India seems to be better placed with the PMI manufacturing recording the highest expansion amongst the 30 economies tracked by IHS Markit.

Going forward, while we expect the consumption demand to improve amidst easing of inflationary pressures, it could simultaneously feel the pinch of the lagged impact of 190 bps of repo rate tightening undertaken by RBI so far. Separately, investment activity is expected to pick up as also validated by improving capacity utilization levels, domestic production and imports of capital goods. Having said so, global growth conditions remain fragile amidst confluence of factors such as synchronized monetary policy tightening on the back of high price pressures and lingering geopolitical uncertainties that have been reverberating across economies. The adverse impact of slowing global growth, has started manifesting in India's export performance which fell to a 19-month low of USD 29.8 bn in Oct-22. Considering these upside and downside factors we expect India's GDP growth at 7.0% in FY23, with some downside risk.

Says Suman Chowdhury, Chief Analytical Officer, Acuité Ratings & Research "We note a divergence among the different data sets on the manufacturing sector. On the one hand, the IIP and the core sector print have highlighted a weakness in manufacturing activity in H1FY23; on the other hand, the PMI manufacturing index at consistently well above 50, continues to highlight an expansionary trend and along with the PMI services, indicate an improved business sentiment. This may be a reflection of an expectation of steady recovery in domestic demand conditions despite the global headwinds. This is one of the reasons why we have decided to hold on to our 7.0% GDP forecast for FY23."

Annexure

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



About Acuité Ratings & Research Limited:

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Media Contact:

Sahban Kohari Ph: + 91-9890318722 sahban@eminenceonline.in

Analytical Contacts:

Suman Chowdhury Chief Analytical Officer Ph: + 91-9930831560 suman.chowdhury@acuite.in	Prosenjit Ghosh Chief Operating Officer – Subsidiaries Ph: +91-9920656299 prosenjit.ghosh@acuite.in