Press Release

Good going on both the PMI indices

Indications, however, of fresh inflationary pressures

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The S&P Global India PMI Manufacturing rose to a 3-month high to 58.6 in August 2023 from 57.7 in July 2023, indicating the twenty sixth straight month of growth in factory activity. The manufacturing index not only reported a 4.27% growth YoY but also a 1.56% sequential growth vis-à-vis July-23. While the PMI Services index printed a 3.53% drop on MoM basis to 60.1 in August 2023 from 62.3 in July 2023, the index was still higher by 5.7% YoY. Overall, the S&P Global India Composite PMI Index, albeit declining from 61.9 in July to 60.9 was indicative of a sharp rate of expansion at 4.64% YoY that was among the strongest in over 12 years.

Encouragingly, manufacturers reported that new orders rose the most since January 2021; while output gained to the greatest extent in 3 years. The producers geared up to manage rising demand by scaling up buying levels and rebuilding their input stocks at the second-strongest pace in past 18.5 years. What's is interesting to observe is that the survey participants feedback that export sales expanded at the fastest rate in 9 months amid robust demand from Bangladesh, China, Malaysia, Singapore, Taiwan, and the US. However, the merchandise trade data upto July-23 doesn't reflect any positive impact of such a revival in external markets.

The price signals were mixed in August, with a quicker increase in input costs contrasting with a softer uptick in factory gate charges. Cost inflation picked up to its strongest in a year, with companies noting higher fees for cotton, foodstuff, rubber, steel, and machinery spare parts. August saw the overall rate of output price inflation quicken to the joint-strongest in over six years. Robust demand conditions facilitated the passing on of cost increases to clients. Such observations from the survey indicate that WPI inflation is set to reverse its deflationary trajectory.

Indian manufacturers hired a combination of permanent and temporary staff on both part- and full-time bases. Finally, sentiment remained historically elevated despite inflationary concerns bringing down the degree of optimism to a 3-month low.

While the headline PMI Services index saw a modest decline, Indian services companies reported a surge in new export business. Several regions contributed to the upturn, including Asia Pacific, Europe, North America and the Middle East. This is encouraging to note and may lead to an improvement in net services exports. As per S&P Global "Demand strength also fostered a heightened sense of optimism regarding the outlook, boding well for economic growth prospects. However, favourable demand trends also led to the fastest increase in prices charged for Indian services in over six years."

Chart: India’s PMI indices hold up well

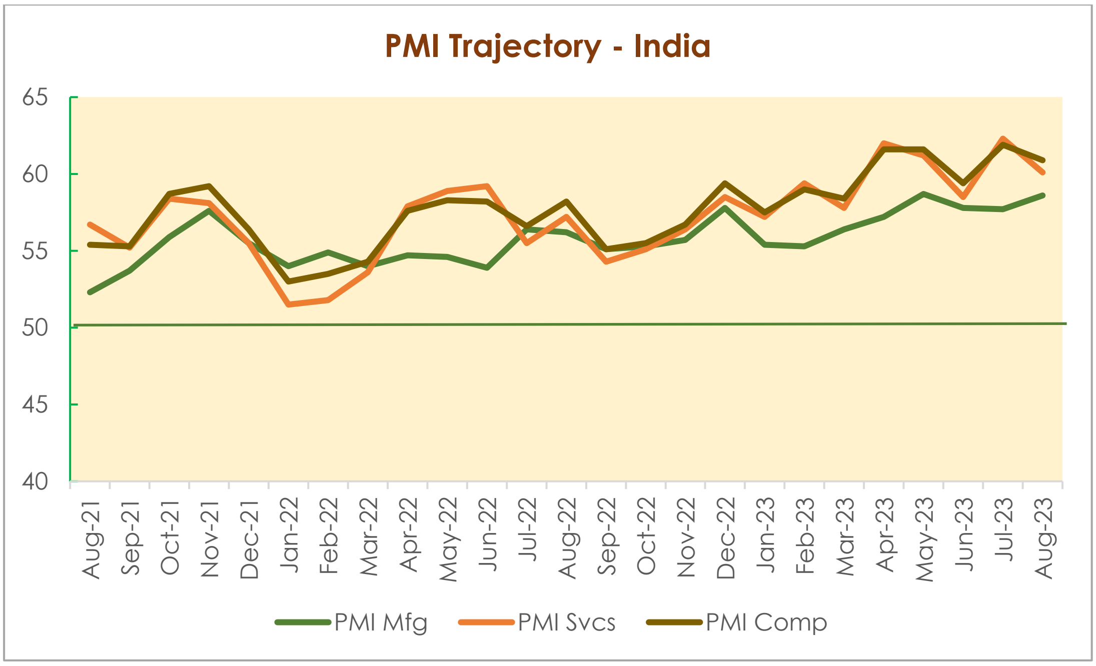

Table: India PMI indices – One Yr Heat Map

	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23
PMI Mfg	56.2	55.1	55.3	55.7	57.8	55.4	55.3	56.4	57.2	58.7	57.8	57.7	58.6
PMI Svcs	57.2	54.3	55.1	56.4	58.5	57.2	59.4	57.8	62	61.2	58.5	62.3	60.1
PMI Comp	58.2	55.1	55.5	56.7	59.4	57.5	59	58.4	61.6	61.6	59.4	61.9	60.9

Says Suman Chowdhury, Chief Economist and Head-Research, Acuité Ratings & Research “We continue to note resilience in the PMI indices at higher levels. PMI Services has remained robust, reflecting the buoyancy in the services sector, particularly with respect to overseas orders. The manufacturing PMI has been in the top median with a reduction in the intensity of the global slowdown, a recovery in the supply chain and reports of higher export orders. However, inflation is again raising its head after a sharp food driven CPI inflation rise in July-23, with the respondents’ feedback about a resumption in rise of input prices; this can be a further concern if food and oil prices are to rise further in the next few months. Nevertheless, the signs of higher capacity utilization augur well for the much awaited pickup in private sector capital expenditure. The latter along with the strong momentum in public infrastructure investments can support a GDP growth of 6.0% in the current year.”

About Acuité Ratings & Research Limited:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 9,600 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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