

May services sector PMI growth fastest in 4 months

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Services sector activity in India grew at the fastest pace in four months in May riding piggyback on higher work orders as companies inducted more people to cope with greater workloads, a monthly survey said today.

The Nikkei India Services Purchasing Managers' Index (PMI), which tracks services sector output on a monthly basis, rose from 50.2 in April to 52.2 in May.

The Nikkei India Services PMI posted above the critical 50.0 level, which separates growth from contraction, for the fourth month running in May.

"The pick-up in service sector growth seen mid-way through the first quarter (FY) suggests that GDP could expand at a faster rate should growth momentum be maintained in June, though there are downside perils to this," said Pollyanna De Lima, economist at IHS Markit, and author of the report.

Service providers took on extra staff in May in order to cope with greater workloads. Although the rate of job growth was modest, it was the fastest in almost four years.

Job creation at services firms also mirrored expectations of output growth, with panelists mentioning new offerings, business expansion plans, more marketing and favourable government policies as the key factors supporting positive sentiment regarding the 12-month outlook.

However, there are worries surrounding an increasingly competitive environment that weighed on confidence of service providers and optimism was at a three-month low.

Meanwhile, the Nikkei India Composite PMI Output Index, that maps both the manufacturing and services sector activity, reached a seven-month high of 52.5 in May from 51.3 in April, as the stronger upturn in services sector counterbalanced the slowdown in growth of manufacturing orders.

"Despite accelerating from April, rates of increase in both services activity and new work are much weaker than typical for India. Moreover, business confidence fell as a reflection of firms' concerns regarding competitive pressures and lacklustre demand," Lima said.

On price rise, the report said that the inflation rates were muted which was lower than long-run average.

Lima further noted that "...worries that this period of uninspiring growth may continue for some time might prompt the RBI to lower the benchmark rate in order to support the economy".

The Reserve Bank in its monetary policy review meet on April 6 kept the repurchase or repo rate - at which it lends to banks - unchanged at 6.25 %, but increased reverse repo rate to 6 % from 5.75 %.

RBI's next policy review is scheduled this week.