Services activity contracts for first time in 8 months due to 2nd wave

PMI drops to 46.4 in May; firms prune workforce as sales dive

OUR BUREAU

New Delhi, June 3

With local lockdowns in major States and Union Territories, services sector struggled in May as Purchasing Managers' Index (PMI) dropped to 46.4 in May from 54 in April. This is first contraction in eight months.

Bad news is that job shedding was highest in last eight months.

"While PMI data released at the start of the month showed that the manufacturing industry managed to keep its head above water in May, the services sector struggled as the pandemic escalated," Pollyanna De Lima, Economics Associate Director at IHS Markit said. PMI is prepared and reported by economic research agency IHS Markit.

Covid curbs

De Lima further mentioned that the Covid-19 crisis and associated restrictions suppressed domestic and international demand for Indian services. Total sales decreased for the first time in eight months, while the fall in external orders was most pronounced since last November.

On Tuesday, the agency said that manufacturing sector is heading towards stagnation and its PMI slipped to 50.8 in May from 55.5 in April. Services has maximum share in Gross Domestic Product (GDP) with over 57 per cent. Manufacturing has around 17 per cent share in GDP. Both sectors are facing job loss. This means that almost two-thirds of the economy was not in good shape during May. This is expected to affected GDP growth rate during April-June quarter, for which official data will be out in August.

Both PMIs are prepared by compiling responses from questionnaires sent to a panel of around 400 companies each from manufacturing and services sector. A diffusion index is calculated for each survey variable. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease.

Job shedding

Talking about jobs, the PMI services report indicates that pandemic-related worries and falling sales have led to services companies pruning workforce numbers in May.

"Amid efforts to keep a lid on expenses, given the deterioration in new business, services companies reduced payroll numbers to the greatest extent in seven months. Concerns towards the outlook, evidenced by a dip in sentiment, could prevent job creation in the near term," De Lima said.

Anecdotal evidence indicated that a fall in staff expenses helped curb input price inflation, De Lima added. Yet, the overall rise in cost burden has been sharp as prices for a wide range of inputs and fuel continued to surge. "Only a small proportion of firms shared additional cost burdens with their clients, resulting in a marginal increase in services fees," she said.