Covid-19 crisis: Services activity shrinks for first time in 8 months

Activity in the services sector contracted in May for the first time in eight months as localised lockdowns hurt demand and international orders dropped, a private survey showed on Thursday.

The IHS India Services Business Activity Index showed Purchasing Managers' Index (PMI) dropped to 46.4 in May against 54 in April.

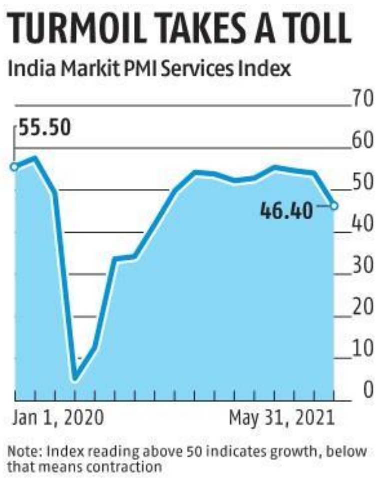
The 50-point mark separates expansion from contraction.

“While the PMI data released at the start of the month showed that the manufacturing industry managed to keep its head above water in May, the service sector struggled as the pandemic escalated,” Pollyanna De Lima, Economics Associate Director at IHS Markit said.

According to De Lima, intensification of the Covid-19 crisis and associated restrictions suppressed domestic and international demand for Indian services. Sales fell for the first time in eight months, while the decline in external orders was the most pronounced since last November.

Early this week, data showed the manufacturing sector slipped to its lowest in 10 months in May. Both services and manufacturing — the key contributors to Gross Domestic Product (GDP) — are facing significant job shedding. The data also indicates that it could have an impact on growth in the first quarter of the current financial year (FY22).

The survey participants, which comprise around 400 companies, indicated that Covid dampened the demand.



International demand also worsened, with new export business falling at the quickest rate in six months. The drop was attributed to international travel restrictions and business closures.

On job losses, the survey highlighted that pandemic-related worries and falling sales led services companies to reduce workforce numbers again. The decline was modest, but the quickest in the current six-month sequence of job shedding.

Service providers noted a further increase in outstanding business volumes midway through the opening quarter of FY22. The pace of accumulation was moderate, however, and little-changed from April.

“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.

She mentioned that anecdotal evidence indicated a fall in staff expenses helped curb the rate of input price inflation. Yet, the overall rise in cost burdens was historically 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 only a marginal increase in services fees,” she said.

Real estate was among the worst-affected segment of the five monitored categories, recording the quickest declines in both new business and output. On the other side of the spectrum was transport and storage, where substantial increases in activity and sales were registered.

Covid-19