

Macro Insights

05th January 2024

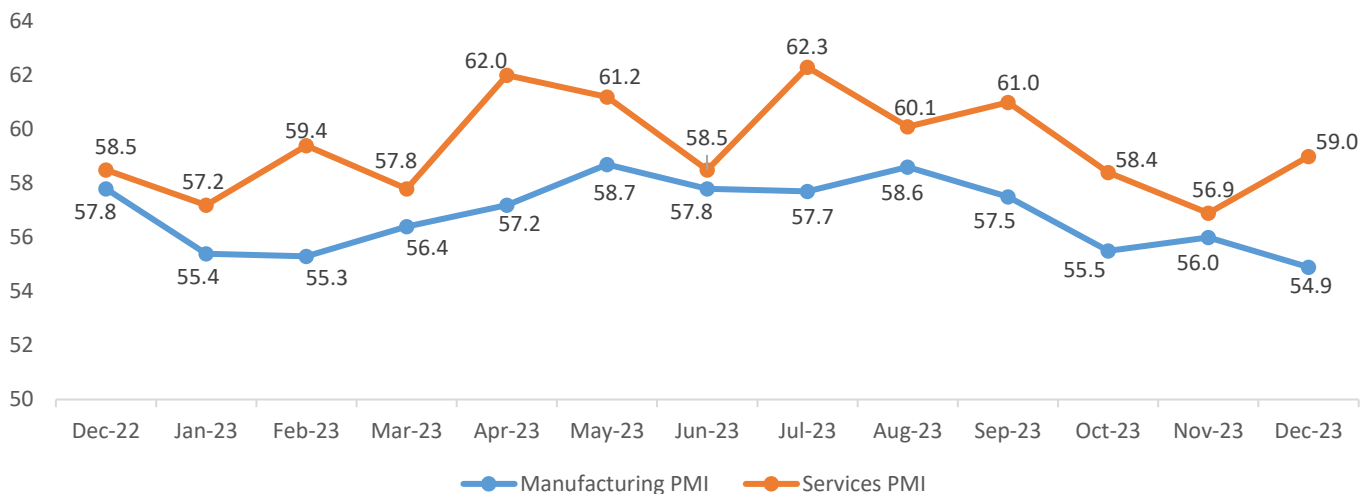
Highlights:

- The services purchasing managers' index (PMI) rose to 59.0 in December'23 from 56.9 recorded in November'23 but it is still marginally higher than 58.5 recorded in December'22.
- The services PMI has been above 50 for 29th consecutive month. Services PMI are on a rise after falling for 2 months while manufacturing PMI has been above 50 for 30 months consecutively.
- The manufacturing PMI decreased to 54.9 in December'23 from 56.0 in November'23 and stands lower than 57.8 of December'22.
- Therefore, the composite PMI, a combination of the manufacturing and services indices rose to 3 month high of 58.5 in December'23 from 57.4 in November'23 but stands lower than 59.4 of December'22.

Views:

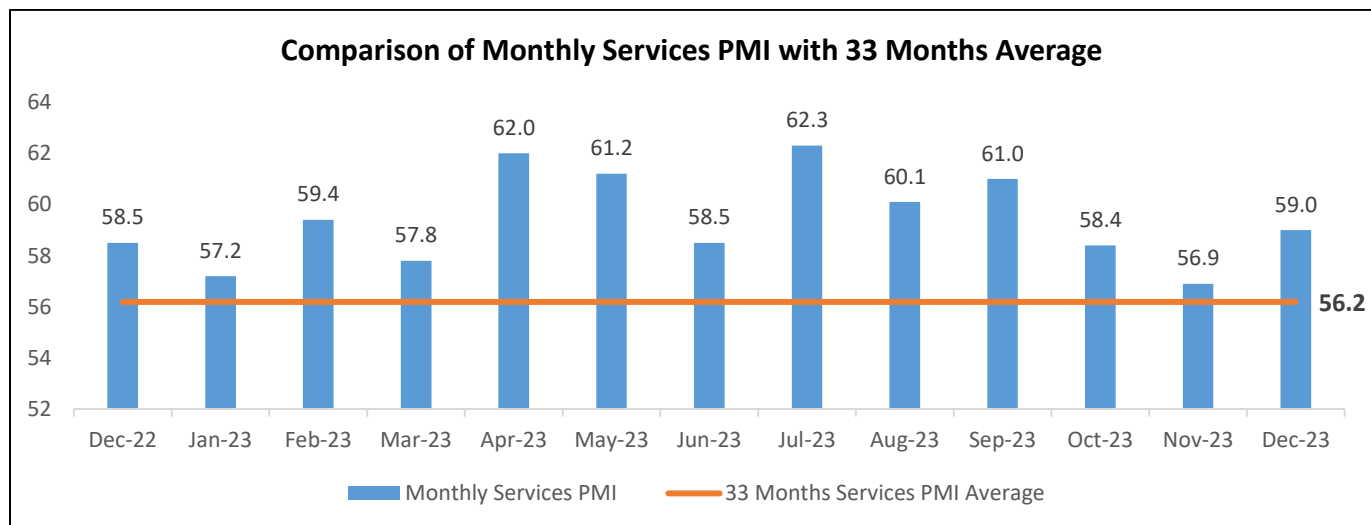
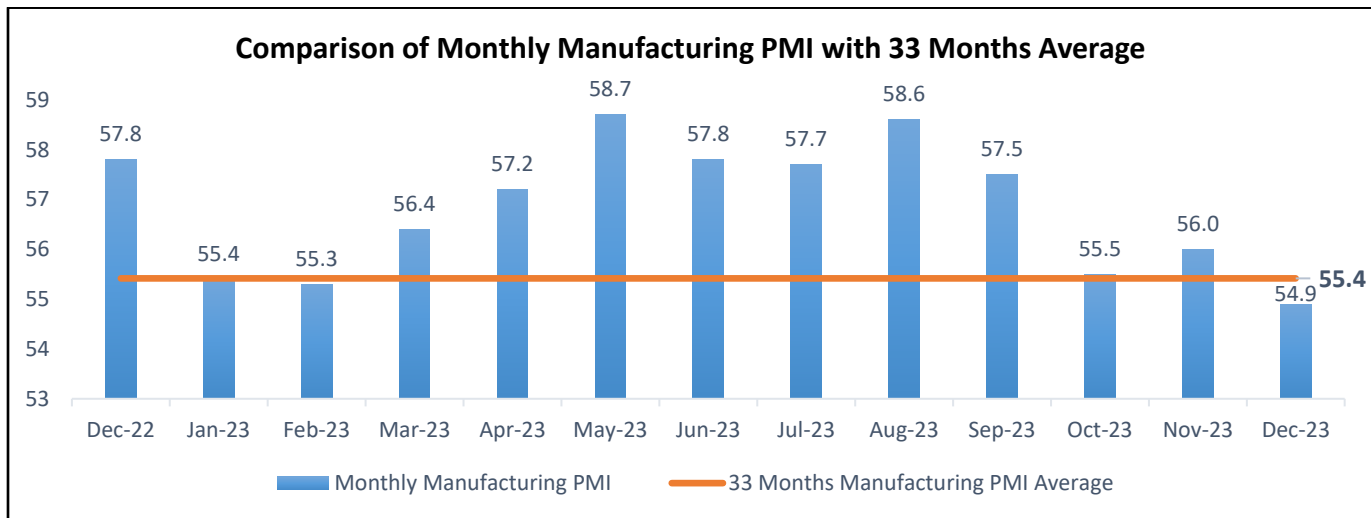
- A reading above 50 means expansion while a reading below it shows contraction.
- India's manufacturing sector PMI witnessed a drop and was lowest since October 2022 owing to slowing pace of increase in new orders. The pace of increase in new orders was the slowest seen in a year-and-a-half.
- Services PMI in December'23 rose from its lowest in last 12 months in November'23 due to output cost rising at a greater pace than input costs.
- Composite PMI rose due to rising services activities even when manufacturing PMI dropped to 18 month low.

Chart: Manufacturing and Services PMI



Insights:

Services PMI has remained above their 33 month average since April'21 but Manufacturing PMI fell below its 33 month average of 55.4 since April'21. PMI manufacturing fell as growth of both output and new orders softened, but on the other hand, the future output index rose since November. This indicates that the economic activities are increasing and the Indian Economy is on a higher growth trajectory. Services PMI rose on back of new business intakes which reached its highest point in the last 3 months. Rise in new business was on account of continued growth in international sales.



Impact on Interest rates:

Central banks track PMI data and incorporate them in part of their decision-making process regarding interest rates. A strong PMI would lead to the economy heating up and a contractionary monetary policy and a weak PMI would indicate expansionary monetary policy. Since the PMI numbers are moderate RBI is likely to continue with the existing policy rates.

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