

Services sector grows at fastest pace in 18 months



The service industry expanded in August due to improving vaccine access and a receding pandemic. Photo: Bloomberg

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New Delhi: India's services sector resumed growth in August for the first time in four months, staging the fastest expansion in a year and a half, market information provider IHS Markit Ltd said.

The seasonally adjusted India Services Business Activity Index surged to 56.7 in August, up from 45.4 in July, IHS Markit said in a statement on Friday, adding that this was the first time it crossed the 50 mark in four months. A reading above 50 indicates an overall increase when compared with the previous month.

The index is compiled based on responses from around 400 service sector companies across segments such as consumer (excluding retail), transport, information, communication, finance, insurance, real estate and business services.

The resumption of growth in the service industry, which has been badly hit by the pandemic and the resultant loss of consumer confidence, is welcome news for policymakers, as services account for more than half of India's economy. June-quarter economic growth figures released earlier this week had shown that manufacturing and construction activities have already reclaimed some of the ground lost in the same quarter a year ago, while agriculture, which proved to be last year's silver lining, has improved further in the first three months of this fiscal.

Strong rebound

The India Services Business Activity Index crossed the 50 mark for the first time in four months, surging to 56.7 in August.



Strong rebound



IHS Markit attributed the service industry growth to improving vaccine access and a receding pandemic. Companies indicated that the reopening of several establishments and increased consumer footfall boosted sales, which in turn supported the first expansion in output in four months and a rebound in business confidence. Where growth was reported, businesses surveyed mentioned strong inflows of new work and improved demand conditions.

As far as new orders in August were concerned, the pace of expansion was the quickest in over eight-and-a-half years. According to survey respondents, sales growth stemmed from greater consumer footfall, the reopening of several firms and successful advertising.

Pollyanna De Lima, economics associate director at IHS Markit, said in the statement that a substantial pickup in domestic demand underpinned the strongest monthly increase in new business for over eight-and-a-half years and renewed growth of activity.

“Service providers foresee a brighter outlook, with firms indicating that the economic recovery could be sustained if restrictions continue to be lifted and further waves...can be avoided,” the statement said further, quoting Lima.

While demand conditions in the domestic market were generally conducive to growth, companies saw a further decline in new export orders due to the pandemic and travel restrictions. The rate of contraction in new business from abroad remained sharp, the statement said.