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HSBC India Manufacturing PMI

Domestic demand continued to power new order growth in August

Summary

Domestic demand continued to drive the recovery in India's manufacturing economy during August. Although new export work grew only slightly, total new business and output continued to expand markedly. Data suggested that higher new order levels exerted manageable pressure on capacity at manufacturing units, as backlogs and employment both fell marginally. With regard to prices, input cost inflation accelerated to its fastest for nearly a year, while charges were stable.

The seasonally adjusted HSBC Markit *Purchasing Managers' Index™ (PMI™)* – a headline index designed to measure the overall health of the manufacturing sector – posted 53.2 in August, to indicate a robust improvement in the health of India's manufacturing industry. However, the index was down from 55.4 in July, signalling that the rate of improvement slowed over the month.

Total incoming new business to Indian manufacturers expanded for the fifth straight month in August, and at a considerable pace. Data showed that the increase was largely powered by the home market, as new export order growth remained subdued. A better economic situation, successful marketing activities and good standing with clients were given by respondents as the primary factors underlying the rise. However, the latest gain in new work was the least marked since April.

Reflecting the trend in new work, Indian manufacturing output grew at a weaker pace during the latest survey period. Even so, the rate of expansion remained strong overall.

Higher new order and production levels led Indian manufacturers to purchase more inputs and enlarge their stocks of raw materials in August. Both buying activity and pre-production inventories rose solidly, albeit at softer rates than in July.

Average vendor performance improved slightly during August, after deteriorating over the previous two months. Anecdotal evidence indicated that suppliers sped up their order processing and delivery times as demand intensified.

The index tracking trends in outstanding business at Indian manufacturing units remained close to the neutral level of 50.0 in August, as it has done for the past six survey periods. This suggested that workloads were manageable, despite further growth of new orders. The absence of capacity pressures was also indicated by a second successive decrease in staffing numbers across the industry. Falling employment indicates that manufacturers boosted productivity to accommodate demand. That said, the rate of job shedding was only mild.

Indian manufacturers reported a sharp rise in their average purchasing costs in August. Moreover, input price inflation accelerated to its fastest since last September. However, competitive pressures forced firms to shoulder their greater cost burdens. Charges were unchanged from July.

Comment

Commenting on the India Manufacturing PMI survey, Robert Prior-Wandesforde, Senior Asian Economist at HSBC said:

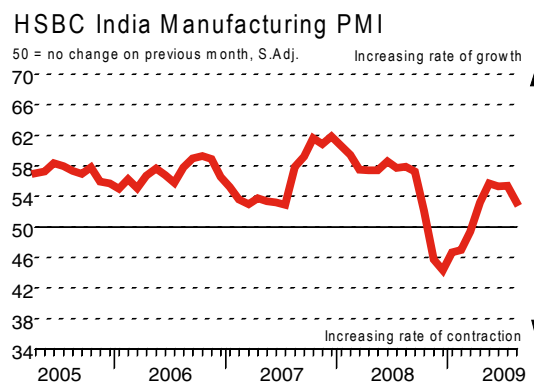
"While India's manufacturing PMI remains comfortably above 50.0, it is disappointing to see the index slip in August to a level that is 2.5 points below its recent high in May this year. In our view, this is more likely to represent a pause for breath than a peaking out of the industrial cycle. After all, there is still plenty more in the way of fiscal and monetary stimulus effects to come through to the economy, while we remain hopeful that exports, particularly to the rest of Asia, will recover shortly."

"Another notable feature of the release is the further increase in the input prices balance (to 57.7 from 56.3 in July and a low of 41.2 in January). This no doubt reflects the impact of higher commodity prices but it is interesting that manufacturing companies are not sufficiently confident to pass on these price rises. The output prices index actually slipped slightly to 50.0. This in turn suggests profit margins are being squeezed."

Key points

- Output and new orders grew markedly, but at weaker rates.
- Employment continued to fall slightly.
- Input price inflation hit eleven-month high, while charges were unchanged.

Historical overview



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Notes to Editors:

The HSBC India Manufacturing PMI is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 500 industrial companies. The panel is stratified geographically and by Standard Industrial Classification (SIC) group, based on the regional and industry contribution to Indian industrial production.

Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50.0 indicates an overall increase in that variable, below 50.0 an overall decrease. All data are seasonally adjusted.

The Purchasing Managers' Index (PMI) is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment- 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times index inverted so that it moves in a comparable direction.

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