Embargoed until: 10:30 (MUMBAI),1 September 2009

HSBC India Manufacturing PMI

Domestic demand continued to power new order growth in August.

Key findings:

- 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.

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 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.

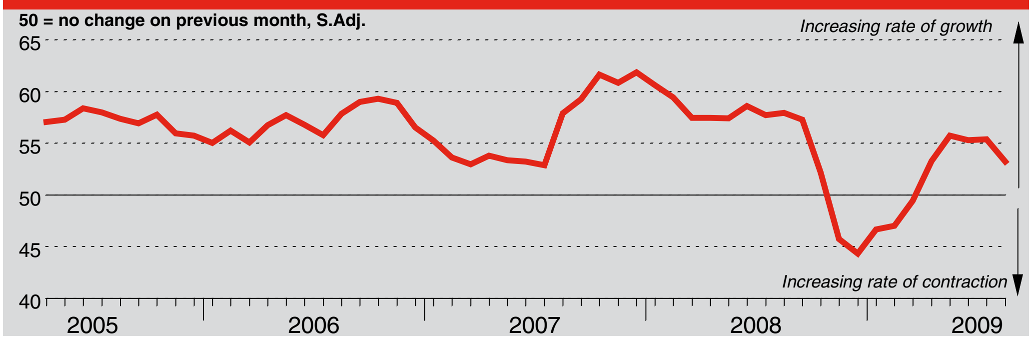
Higher new order and production levels led Indian manufacturers to purchase more inputs and enlarge their stocks of raw materials in August. Both buying activity and pre-production inventories rose solidly, albeit at softer rates than in July.

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 the 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.

HSBC India Purchasing Managers' Index (PMI™)



The HSBC India Purchasing Managers' Index (PMI) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, employment, suppliers' delivery times and stocks of goods purchased. A reading of the PMI below 50.0 indicates that the manufacturing economy is generally declining; above 50.0, that it is generally expanding. A reading of 50.0 signals no change. The greater the divergence from 50.0, the greater the rate of change signalled by the index.

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The HSBC India Manufacturing PMI series is produced by Markit Economics, an independent research company that produces highly-regarded surveys of business conditions in nations around the world.

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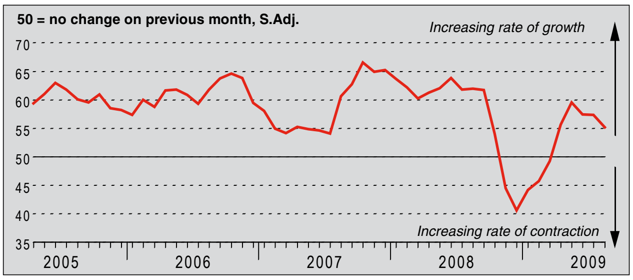
Output Index

Q. Please compare your production/output this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	Mar	24.5	59.5	15.9	8.6
	Apr	31.7	53.6	14.7	17.0
	May	31.4	58.4	10.2	21.3
	Jun	26.0	61.8	12.1	13.9
	Jul	22.3	65.9	11.8	10.6
	Aug	20.2	67.5	12.3	7.8

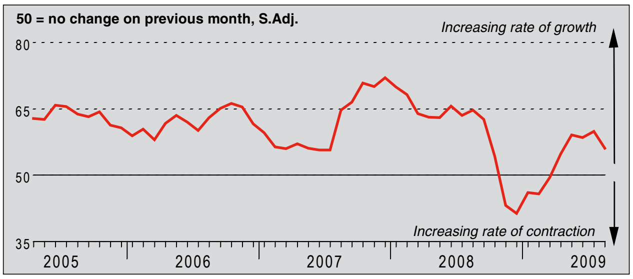


Indian manufacturing production expanded at a marked pace during August, driven by another sharp increase in incoming new business. Respondents have reported higher overall output for five months, following an equally long period of contraction. Approximately one-fifth of companies raised activity levels to meet market demand, against around 12% that cut production. However, the rate of growth was weaker than over the previous four survey periods.

New Orders Index

Q. Please compare the level of new orders received (India and export) this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	Mar	30.2	49.9	19.9	10.4
	Apr	31.5	51.5	17.0	14.5
	May	32.1	56.6	11.3	20.8
	Jun	27.3	59.5	13.2	14.1
	Jul	24.3	64.6	11.2	13.1
	Aug	23.3	63.4	13.3	10.1

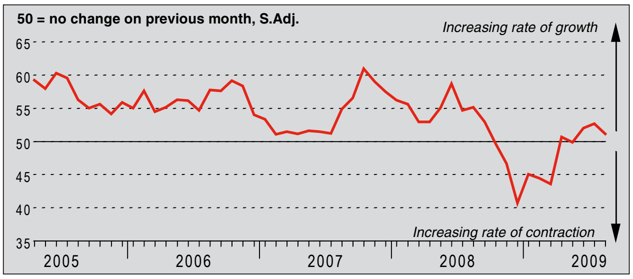


Improved economic conditions, both at home and abroad, continued to boost demand for Indian manufactures in August. Taking advantage of a more favourable market situation, many companies stepped up their promotional efforts. Others simply relied on their reputations as producers of high quality goods to attract custom. Consequently, panellists reported another substantial influx of new work. That said, the rate of new order growth slowed from July's ten-month high.

New Export Orders Index

Q. Please compare the level of new export orders received this month with the situation of one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	Mar	3.4	80.7	15.9	-12.5
	Apr	6.5	88.5	5.0	1.6
	May	9.2	82.1	8.7	0.5
	Jun	10.7	83.6	5.7	4.9
	Jul	4.8	91.4	3.8	1.0
	Aug	8.9	87.6	3.5	5.4

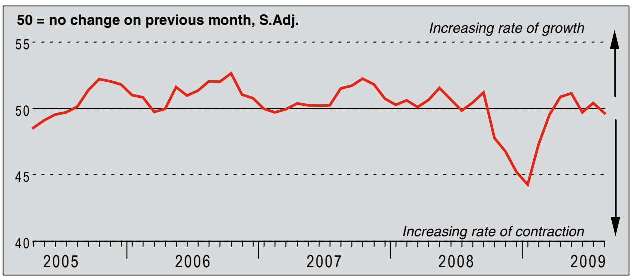


New export orders taken by Indian manufacturers rose for the third straight month in August. However, the rate of expansion moderated since July to only a slight pace. The weak increase in new export business implies that domestic, rather than foreign, demand continued to be the primary driver of total new order growth during the latest survey period. Panel members commonly linked gains in new export work to better economic conditions abroad. Some firms particularly mentioned that demand from the UK had picked up.

Backlogs of Work Index

Q. Please compare the level of outstanding business in your company this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	Mar	12.1	76.3	11.6	0.6
	Apr	7.0	87.5	5.4	1.6
	May	5.9	90.4	3.6	2.3
	Jun	2.8	92.3	4.9	-2.1
	Jul	1.4	97.5	1.1	0.4
	Aug	5.2	89.9	4.9	0.3

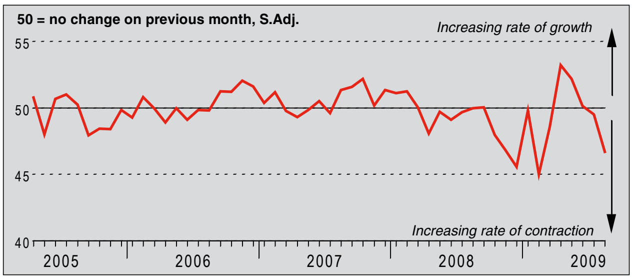


The seasonally adjusted Backlogs of Work Index continued to trend about the 50.0 no-change mark in August, as it has done since March. The latest movement brought it just below the neutral level to show a fractional decline in volumes of unfinished business at Indian manufacturers. The sideways progression of the index suggests that, despite continued and marked growth of new orders, workloads have been manageable. This is reflected by the high proportions of companies in recent months that have seen no difference in the amount of work-in-hand at their units.

Stocks of Finished Goods Index

Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	Mar	11.0	75.8	13.1	-2.1
	Apr	16.0	75.8	8.2	7.7
	May	10.5	83.6	5.9	4.5
	Jun	7.0	85.4	7.6	-0.6
	Jul	5.1	87.7	7.2	-2.1
	Aug	3.2	86.6	10.3	-7.1

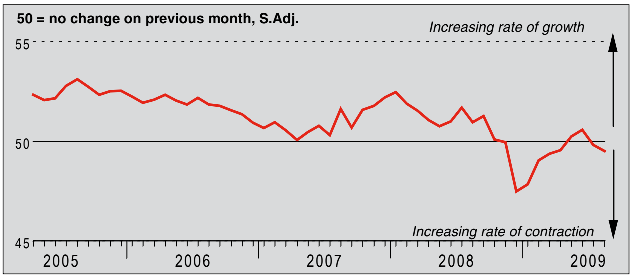


High volumes of sales left Indian manufacturers with depleted stocks of finished goods during August. It was the second month running that companies in the industry saw their post-production inventories contract. Furthermore, the rate of decline accelerated since July to the fastest for six months. More than one-tenth of respondents reported lower holdings of completed products, compared with under 4% that accumulated stocks.

Employment Index

Q. Please compare the level of employment at your unit with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	Mar	4.4	89.8	5.8	-1.4
	Apr	1.6	95.7	2.7	-1.1
	May	1.6	96.6	1.8	-0.2
	Jun	1.4	97.5	1.1	0.3
	Jul	2.4	95.4	2.1	0.3
	Aug	1.6	96.1	2.3	-0.7

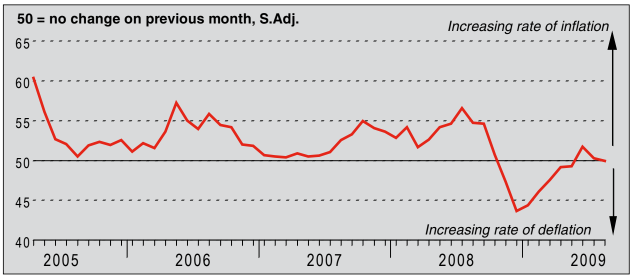


Indian manufacturers released more workers during the latest survey period. Employment in the industry has fallen over seven of the past nine months. The rate of job shedding accelerated to the fastest since March, but was nevertheless only marginal. By far the greatest proportion (over 96%) of the survey panel maintained their workforces. Anecdotal evidence suggested that personnel numbers were trimmed to reduce costs as part of wider productivity drives.

Output Prices Index

Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	Mar	6.1	82.5	11.3	-5.2
	Apr	3.8	91.2	5.1	-1.3
	May	3.0	93.9	3.1	-0.2
	Jun	5.7	93.4	1.0	4.7
	Jul	3.2	94.0	2.9	0.3
	Aug	4.7	91.1	4.2	0.5

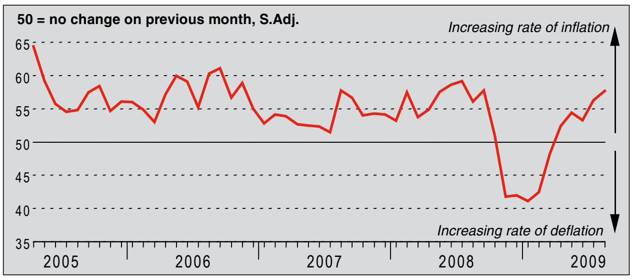


Factory gate prices across India's manufacturing industry were unchanged during August. The seasonally adjusted Output Prices Index registered at the neutral threshold of 50.0 – marginally below it's level in July. Companies that raised their charges did so predominantly to protect their profit margins against rising cost burdens. However, panel members generally cited that intense competition had prevented price increases. Competition was also the main factor underlying price discounting.

Input Prices Index

Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	Mar	12.3	72.4	15.4	-3.1
	Apr	11.8	81.8	6.4	5.4
	May	12.3	84.9	2.8	9.5
	Jun	13.2	79.6	7.2	6.0
	Jul	13.7	82.7	3.7	10.0
	Aug	24.1	70.3	5.6	18.5

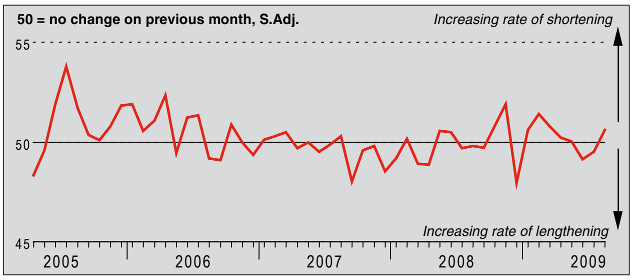


The seasonally adjusted Input Prices Index maintained its upward trajectory in August, hitting an eleven-month high. The latest reading pointed to a rapid increase in purchasing costs across the Indian manufacturing economy, which the majority of panel members attributed to more expensive raw materials. Additionally, with over 24% of respondents recording higher prices and less than 6% seeing their cost burdens fall, the rate of increase signalled was greater than the historic trend for the series.

Suppliers' Delivery Times Index

Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.

		Faster %	Same %	Slower %	Net +/-
2009	Mar	5.8	90.7	3.5	2.4
	Apr	1.6	97.1	1.3	0.3
	May	1.4	97.6	1.0	0.4
	Jun	1.4	96.3	2.3	-0.9
	Jul	0.4	98.0	1.6	-1.2
	Aug	1.2	97.9	0.9	0.4

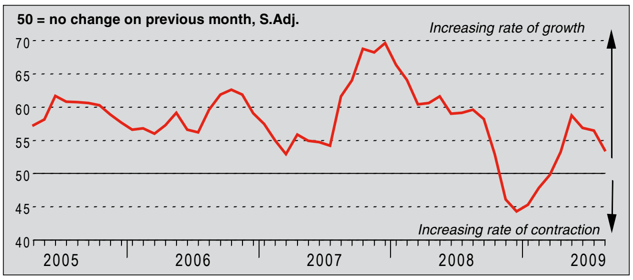


Lead times for raw material deliveries to Indian manufacturers shortened during August for the first time in three months. Survey members indicated that greater demand for inputs had spurred vendors to speed up their order processing and dispatch rates. However, the overall reduction in delivery times was only marginal. Numerous panellists mentioned that short supplies of some raw materials had prevented any improvement in supplier performance.

Quantity of Purchases Index

Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	Mar	23.8	58.1	18.1	5.7
	Apr	20.4	66.1	13.5	6.9
	May	27.1	63.7	9.2	17.9
	Jun	21.2	65.8	13.0	8.2
	Jul	18.6	73.0	8.4	10.2
	Aug	16.2	74.5	9.2	7.0

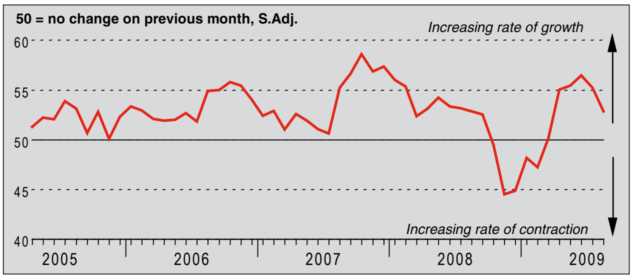


The volume of inputs bought by Indian manufacturers rose at a solid pace during August, extending the current sequence of expansion to five months. Over 16% of companies raised their buying activity since July, predominantly in response to strong market demand. However, the rate of increase moderated further from May's nine-month high, reflecting the slowing trend in new order growth. Even so, the rise in purchses remained above the average for the past year.

Stocks of Purchases Index

Q. Please compare your stocks of purchases (in units) with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	Mar	15.0	69.9	15.1	-0.1
	Apr	19.8	73.2	7.1	12.7
	May	17.0	77.1	5.9	11.1
	Jun	20.4	72.4	7.2	13.2
	Jul	13.6	79.6	6.9	6.7
	Aug	13.6	79.2	7.3	6.3



Indian manufacturers enlarged their holdings of raw materials during the latest survey period, as they have done in each of the past six months. Greater inflows of new business and improved economic conditions were the main reasons for adding to stocks, according to respondents. However, in line with the trend in purchasing activity, the rate of stock accumulation slowed over the month to the weakest since March. The latest growth of inventories was broadly in line

Notes on the Data and Method of Presentation

The Purchasing Managers' Index is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 420 manufacturing companies. The panel is stratified geographically and by Standard Industrial Classification (SIC) group, based on 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'.

The Purchasing Managers' Index (PMI) is a composite index based on five of the individual indexes with the following weights derived from the Chartered Institute of Purchasing & Supply's survey of the UK economy: 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.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

Warning