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HSBC India Manufacturing PMI

Higher domestic demand drove faster growth of new business and output

Summary

After falling to a five-month low in August, the seasonally adjusted HSBC Markit Purchasing Managers' Index™ (PMI™) – a headline index designed to measure the overall health of the manufacturing sector – rose in September. The latest reading, broadly on a par with those recorded between May and July, signalled a marked improvement in the health of India's manufacturing industry. Underlying the higher PMI figure was accelerated growth in production, new business and stocks of purchases. Meanwhile, employment and suppliers' delivery times – the other components of the headline index – were broadly stable.

Indian manufacturers experienced an increase in new work for the sixth straight month in September. New orders expanded at a considerable pace that was above the average for the current sequence. Respondents cited better economic conditions and marketing initiatives as the primary reasons for the increase. However, data showed that domestic demand remained the primary driver of total new business growth; the month-on-month rise in new export orders slowed further to only a marginal pace in September.

Production levels at India manufacturers were raised in line with the upward trend in new work during September. Output increased at a rapid pace that was the most marked for four months.

Despite further growth of new business, backlogs of work and employment levels were largely unchanged on the month. This suggests that existing resources at Indian manufacturers were able to absorb September's higher workloads.

Buying activity at Indian manufacturers rose in September, and at an accelerated pace. Reports indicated that more raw materials were purchased both to increase buffer stocks and accommodate higher production levels. Pre-production inventories expanded at a marked pace as a result.

Lead times on raw material deliveries continued to shorten in September, despite stronger demand for inputs at Indian manufacturers. However, the improvement in average vendor performance was only slight and slower than in the previous month.

Both output and input price inflation accelerated during September. The former picked up to a one-year high, while the latter was the most marked for three years. Respondents commonly attributed greater purchasing costs to increased fuel and raw material expenses. Companies in the Food & Drink sector particularly noted that the poor monsoon season had driven food prices up.

Better demand conditions allowed manufacturers to pass on part of their cost burdens to customers. Consequently, tariffs were raised at a solid pace. Even so, charge inflation remained weak compared to input price inflation.

Comment

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

"It is encouraging to see the PMI index move up again in September after last month's decline, allaying fears that the industrial cycle has peaked. Given that the full effects of the monetary and fiscal stimulus have still to be felt, while oil and gas output is set to rise and the regional/world trade cycle should improve, we are confident that industrial growth will not just remain firm but trend higher from here. These positive drivers should more than offset the negative effects of the drought."

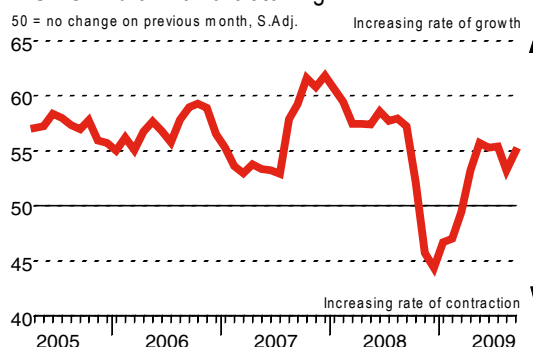
"On the activity side, the most disappointing aspect of the release was the small fall in the export orders balance to 50.9. With overall orders improving sharply to 58.3, the implication is that domestic demand strengthened considerably in September. Meanwhile, the input prices balance surpassed the mid-2008 peak, rising to 59.4. There are also signs that these commodity-driven price pressures are starting to be passed by manufacturers - the output prices balance jumped to 52.5 from 50.0. In our view, wholesale inflation, India's key price measure, will hit 8% by March next year causing a major headache for the Reserve Bank."

Key points

- Output and total new business growth accelerated, despite weaker rise in new export orders.
- Employment and lead times broadly unchanged.
- Charge and input price inflation respectively hit one- and three-year highs.

Historical overview

HSBC India Manufacturing PMI



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Notes to Editors:

The HSBC India Report on Manufacturing 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.

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