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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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HSBC India Manufacturing PMI

Higher domestic demand drove faster growth of new business and output.

Key findings:

- 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.

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.

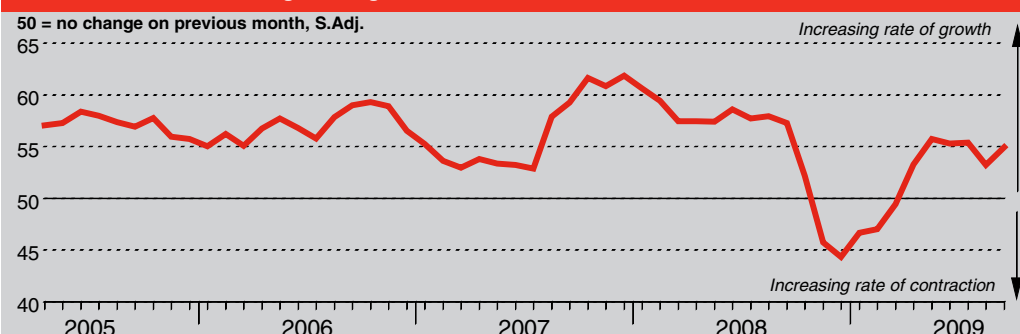
Buying activity at Indian manufacturers rose in September, and at an accelerated pace. Reports indicated that more raw materials were purchased both to increase buffer stocks and accommodate higher production levels. Pre-production inventories expanded at a marked pace as a result.

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.

HSBC India Purchasing Managers' Index (PMI™)

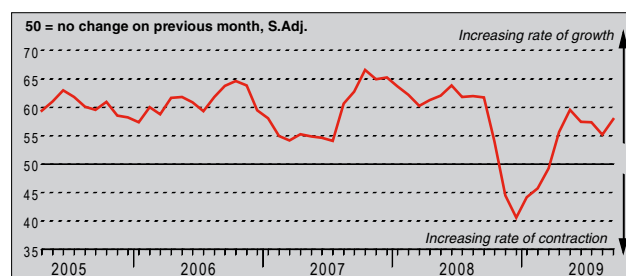


The HSBC India Purchasing Managers' Index (PMI) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, 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.

Output Index

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

		Higher %	Same %	Lower %	Net +/-
2009	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
	Sep	36.8	54.9	8.3	28.5

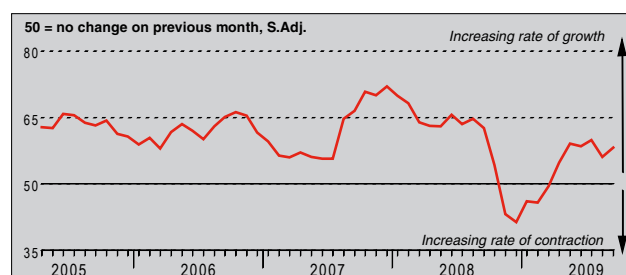


After faltering between June and August, production growth at Indian manufacturers accelerated to a considerable pace in September. The seasonally adjusted Output Index climbed to a four-month high, with around 37% of respondents noting greater activity levels. In contrast, only around 8% of companies cut production during the latest survey period. Reports indicated that greater new order numbers, predominantly from domestic sources, drove the expansion in output.

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	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
	Sep	36.0	56.0	7.9	28.1

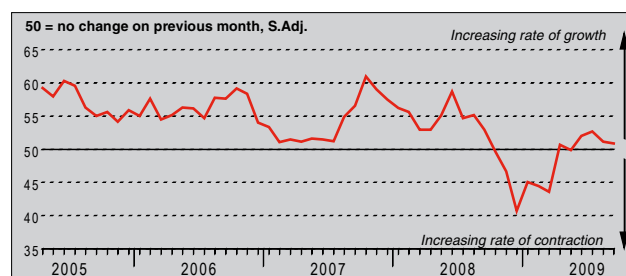


New business placed with Indian manufacturers rose sharply during September, extending the current period of expansion to six months. Moreover, the rate of increase accelerated after slowing in August. Exactly 36% of the survey panel cited higher demand for their goods, mainly because of improved economic conditions. Some companies also commented on successful promotional activities. However, data showed that the domestic market was still the primary source of growth as new work from abroad rose only marginally.

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	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
	Sep	12.3	81.7	6.0	6.4

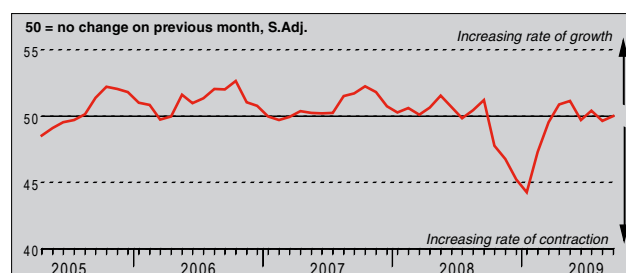


Growth of new export business at Indian manufacturers continued to slow in September. The latest increase was only meagre and the weakest of the current four-month sequence. Anecdotal evidence suggested that the slowdown in the rate of expansion reflected difficult business conditions in some of India's export markets. However, the seasonally adjusted New Export Orders Index remained above the neutral level of 50.0, and also higher than its twelve-month average.

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	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
	Sep	4.1	94.4	1.6	2.5

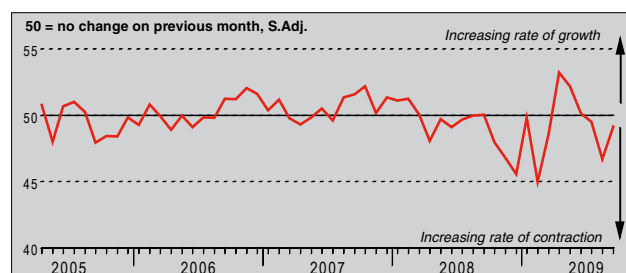


Data indicated that overall workloads at Indian manufacturers remained manageable in September, despite accelerated growth of new orders. Posting at the no-change mark of 50.0, the seasonally adjusted Backlogs of Work Index showed that volumes of unfinished business were largely unaltered on the month. The index has posted largely around 50.0 since March, suggesting that manufacturers have kept levels of work-in-hand broadly stable over this period.

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	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
	Sep	8.2	84.7	7.1	1.1

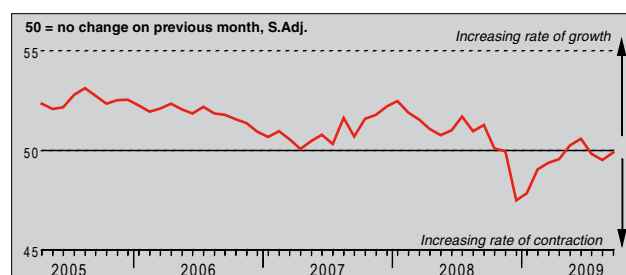


Indian manufacturers noted a reduction in their stocks of finished products for the third month running during September. However, the overall rate of depletion slowed since August to only a marginal pace. The vast majority of survey participants (around 85%) maintained their post-production inventories over the month. Where holdings continued to decrease, companies frequently attributed this to low production levels.

Employment Index

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

		Higher %	Same %	Lower %	Net +/-
2009	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
	Sep	1.0	98.4	0.6	0.4

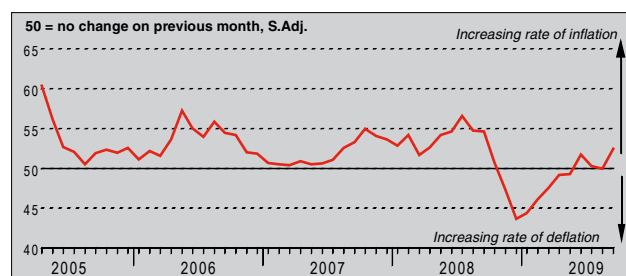


Staffing numbers across India's manufacturing sector were broadly stable in September. After accounting for seasonal variations, the Employment Index registered its highest level for three months and just below the neutral threshold of 50.0. Where job shedding persisted, it was primarily due to low workloads. In contrast, companies that hired more personnel did so in order to accommodate stronger demand and new product launches.

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	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
	Sep	7.0	93.0	0.0	7.0

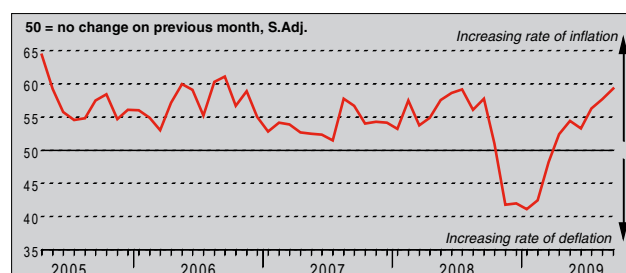


Prices charged for Indian manufactures rose for the fourth month running in September. Furthermore, the rate of increase accelerated to a one-year high. Firms took advantage of improved demand conditions to pass through higher input cost burdens to customers and protect their profit margins. That said, inflation remained modest in comparison to the average trend prior to the downturn (which spanned November 2008 to May 2009).

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	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
	Sep	24.4	73.2	2.4	22.0

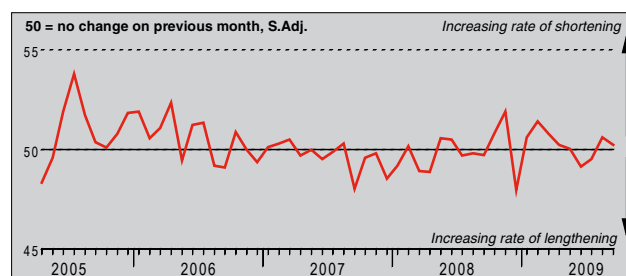


Indian manufacturers faced greater purchasing costs in September, as they have during every survey period since April. Climbing to its highest point for three years, the seasonally adjusted Input Prices Index signalled a rapid rate of inflation. Just under one-quarter of companies reported increased prices since the previous month. Anecdotal evidence indicated that greater fuel and raw material expenses drove the latest round of inflation.

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	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
	Sep	1.5	98.3	0.3	1.2

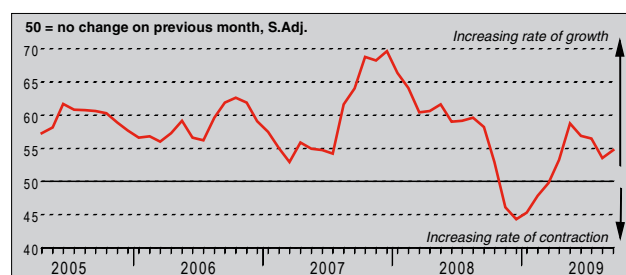


With Indian manufacturers' demand for raw materials still weak by historical standards, average vendor performance continued to improve in September. The seasonally adjusted Suppliers' Delivery Times Index has registered above the neutral mark of 50.0 for two successive months. However, the rate of improvement was only fractional and slower than in August. The vast majority of panel members (over 98%) saw no change in lead times.

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	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
	Sep	28.5	64.8	6.8	21.7

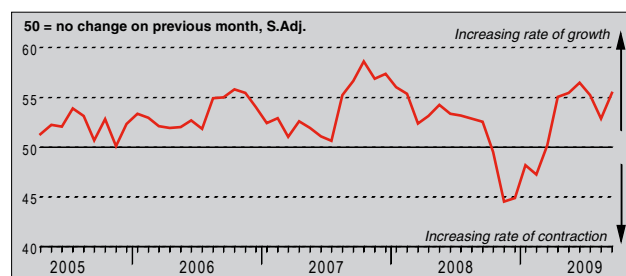


The recent downward trend in the seasonally adjusted Quantity of Purchases Index ended in September. Since hitting a nine-month high in May, the index had fallen during every survey period, signalling slowing growth of buying activity. However, the latest reading pointed to an accelerated expansion of raw material purchases by Indian manufacturers. September's marked rise in purchasing reflected faster increases in new business and production.

Stocks of Purchases Index

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

		Higher %	Same %	Lower %	Net +/-
2009	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
	Sep	20.0	75.5	4.5	15.6



Indian manufacturers continued adding to their input holdings during September, and at an accelerated pace. The seasonally adjusted Stocks of Purchases Index registered its highest reading for three months and pointed to a marked rise in inventories. One-fifth of survey members accumulated higher levels of raw materials since August. Anecdotal evidence suggested that stocks were increased predominantly in order to sustain greater production levels.

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.

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