

HSBC India Manufacturing PMI

Overall activity growth eased, reflecting weaker expansions of manufacturing and services output

Summary

The recovery of India's manufacturing economy continued on a relatively steady footing during October. Output and new orders rose at substantial rates, albeit less sharply than in September. Meanwhile, buying activity grew at an accelerated pace and employment expanded for the first time in four months.

At 54.5 in October, the seasonally adjusted HSBC Markit Purchasing Managers' Index™ (PMI™) – a headline index designed to measure the overall health of the manufacturing sector – was only fractionally lower than in September (55.0). The latest reading pointed to another strong improvement in the health of the industry.

Indian manufacturing output expanded for the seventh consecutive month in October, and at a rapid pace. Improved production efficiency and greater new order volumes supported the latest increase, according to panellist accounts.

New work placed with Indian manufacturers grew markedly at the start of the fourth quarter, which firms commonly linked to a better economic situation. Other reasons for the rise included successful advertising campaigns, good reputations and company expansions. New business stemmed from both domestic and export markets, with foreign sales improving at the fastest rate since August last year. Even so, the home market remained the principal driver of growth.

Manufacturers took advantage of demand conditions in October, raising their charges for the second straight month. However, output price inflation slowed to only a marginal pace, reflective of ongoing competitive pressures. Meanwhile, input price inflation remained marked, despite easing from September's three-year high. Respondents blamed greater purchasing costs on more expensive raw materials.

Employment at Indian manufacturers expanded during October. Survey participants stated that personnel were taken on to accommodate higher production requirements. However, the rate of job creation was only marginal and below the long-run series trend.

Comment

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

"The PMI, which led the upturn in the industrial cycle, has gone essentially no-where over the last 6 months. It is, however, consistent with robust growth in industrial production of around 8-10% on an annual basis.

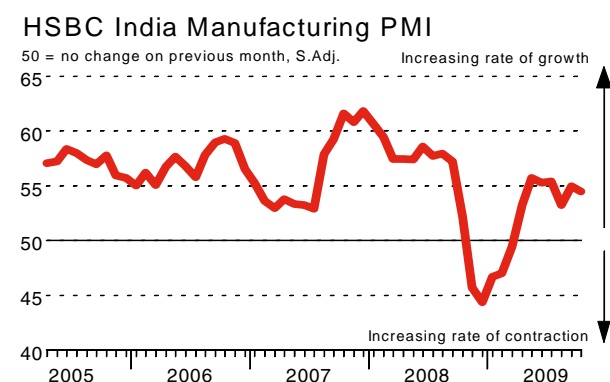
"If falls in the output and total new orders indices were a touch disappointing, a rise in the employment index back above 50.0 and a decent improvement in the new export orders index to its highest level since August last year offered welcome news. It may be that domestic new order growth is beginning to suffer from the impact of the drought, but at least stronger foreign demand is helping to cushion the blow.

"Also helpful, from a policy perspective at least, were falls in both input and output prices indices. Although early days, the latter looks to have a decent relationship with wholesale price inflation and might help calm what are clearly extremely frayed nerves at the Reserve Bank of India."

Key points

- Output and new orders continued to grow at considerable rates, albeit less strongly than in September.
- Employment rose for the first time since June.
- Input and output price inflation moderated.

Historical Overview



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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: 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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Markit Economics is a specialist compiler of business surveys and economic indices, including the Purchasing Managers' Index (PMI) series, which is now available for 26 countries and key regions including the Eurozone and BRIC. The PMIs have become the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends.

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