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HSBC India Manufacturing PMI

PMI signalled another robust improvement in operating conditions across India's manufacturing sector.

Key findings:

- 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.

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.

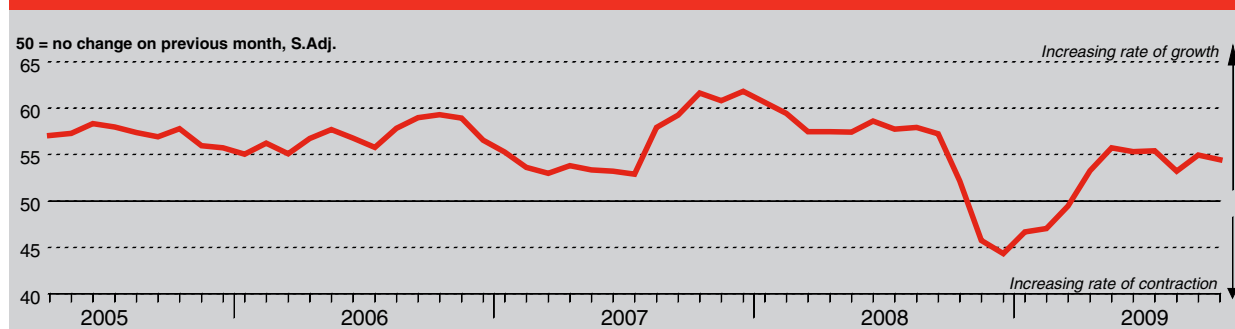
Demand for Indian manufactures led companies to buy more inputs in October, despite higher raw material prices. Purchasing activity increased at a considerable rate, enabling another build-up of pre-production inventories.

Vendors' delivery times lengthened during the latest survey period. Anecdotal evidence suggested that stronger demand for inputs, alongside transportation difficulties due to heavy rains, caused the slight deterioration in supplier performance.

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.

Manufacturers increased their focus on efficient production in October, partly in an effort to reduce backlogs. Outstanding business fell for the second time in three months, albeit only slightly. Strong demand and power cuts prevented a faster reduction of work-in-hand, according to respondents.

HSBC India Purchasing Managers' Index (PMI™)

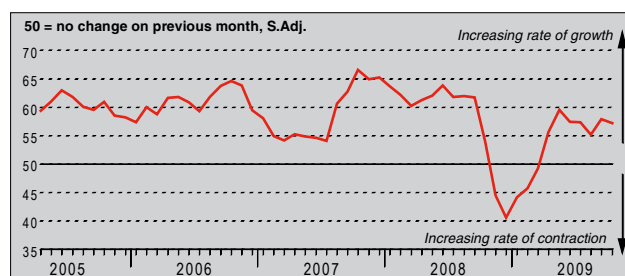


The HSBC India Purchasing Managers' Index (PMI) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, 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	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
	Oct	31.2	55.3	13.5	17.7

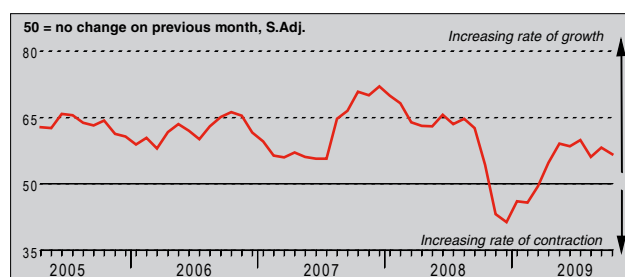


The seasonally adjusted Output Index signalled another considerable rise in Indian manufacturing activity at the start of Q4. Although lower than in September (and therefore indicating a slight slowdown in the rate of expansion) the index remained comfortably above its average for the year to date. Panel members linked October's growth to greater new order numbers and improved productive efficiency. Companies in the sector have now raised production for seven straight months.

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	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
	Oct	29.1	59.1	11.8	17.3

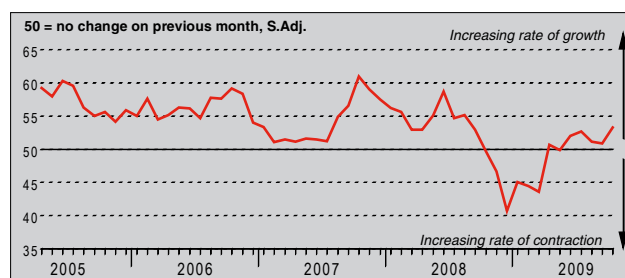


Incoming new work to Indian manufacturers rose markedly during October, albeit more slowly than in September. Reports suggested that better economic conditions underlay the latest expansion. Some respondents also noted that promotional activities and reputations for quality goods had helped attract custom. Others commented on company expansions. Although the contribution of new export orders to total growth rose noticeably on the month, data showed that the domestic market remained the primary driver of overall sales gains.

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	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
	Oct	16.9	79.0	4.1	12.8

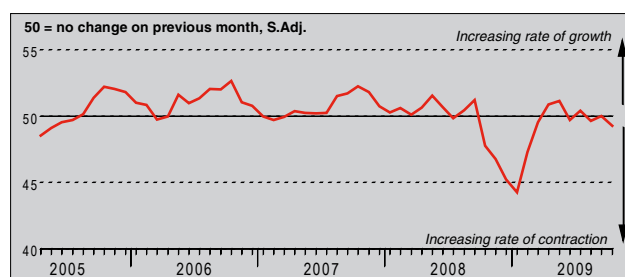


New export orders taken by Indian manufacturers expanded at a solid rate during the latest survey period. Moreover, October's growth was the fastest for fourteen months. Approximately 17% of companies noted an increase in foreign demand, against around 4% that saw a decline. Improved economic conditions abroad were reportedly the main reason for the fifth successive rise in new export business. However, the rate of growth remained weaker than the long-run series trend.

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	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
	Oct	3.6	92.1	4.3	-0.7

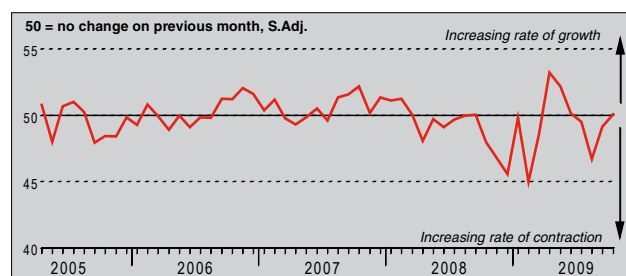


Outstanding work at Indian manufacturing plants fell slightly in October. Panellists frequently cited improvements in productive efficiency as the primary factor underlying backlog depletion. Anecdotal evidence suggested that strong demand and power cuts prevented a faster depletion of work-in-hand. For the past five months, the seasonally adjusted Backlogs of Work Index has not moved more than one point away from the no-change mark of 50.0, indicating that workloads in the industry have remained largely manageable, despite continued growth of new business.

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	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
	Oct	9.5	82.8	7.7	1.8

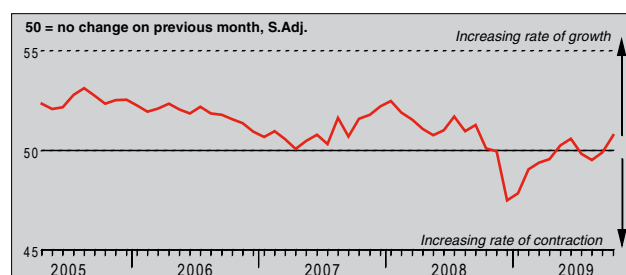


After accounting for seasonal variation, the Stocks of Finished Goods Index registered just above the no-change threshold of 50.0 in October, after three months in negative territory. The latest reading indicated that post-production inventories at Indian manufacturing units were broadly unchanged. Where stock building was reported, it was commonly linked to greater demand. Likewise, lower holdings of finished goods were primarily the result of higher sales levels.

Employment Index

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

		Higher %	Same %	Lower %	Net +/-
2009	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
	Oct	3.4	94.5	2.1	1.3

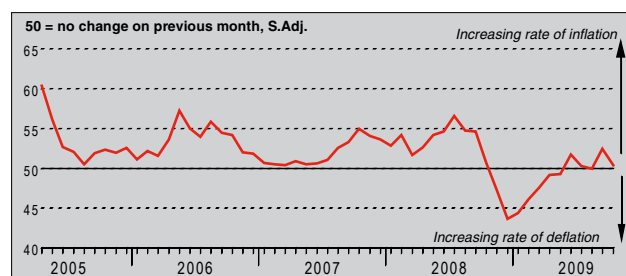


The number of people employed by Indian manufacturers rose during October, following a three-month period of contraction. Greater production requirements was the primary factor behind decisions to hire additional staff, according to respondents. However, the rate of job creation was only marginal as the overriding proportion of the survey panel (around 95%) maintained the size of their workforces since September. Moreover, employment growth was subdued in relation to its long-run trend.

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	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
	Oct	7.5	86.0	6.5	1.0

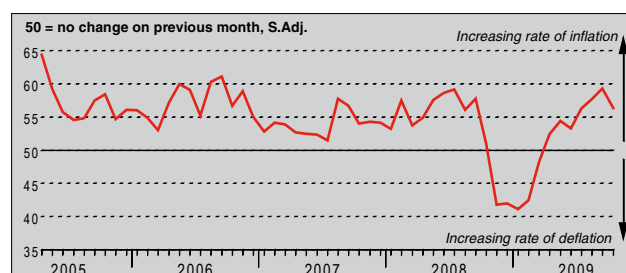


Indian manufacturers continued to raise their charges at the start of the year's final quarter, extending the current inflationary period to two months. Companies took advantage of improved demand conditions to pass on part of their cost burdens to customers. However, the rate of increase slowed since September to only a marginal pace. Panellists stated that strong competition prevented further price rises. Most firms (86%) left their charges unchanged on the month.

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	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
	Oct	19.7	73.8	6.5	13.1

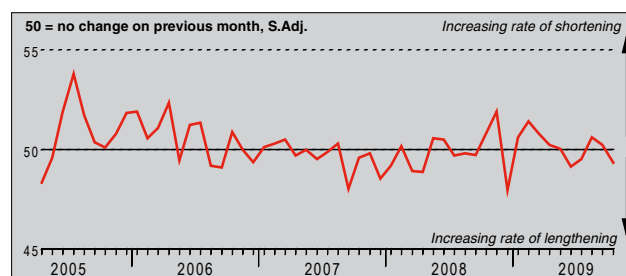


Input price inflation across India's manufacturing economy moderated in October from September's three-year high. Survey participants indicated that the slowdown partly emanated from competition amongst suppliers. Nevertheless, the rate of increase remained sharp and above the pre-crisis trend. Higher raw material prices drove the latest round of inflation, according to firms. Those in the Food & Drink sector made particular reference to the inflationary effects of flooding on food costs.

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	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
	Oct	2.3	95.1	2.6	-0.4

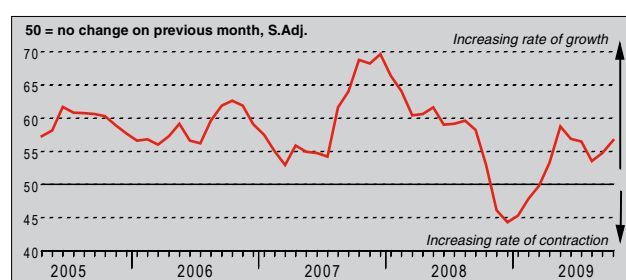


After two months of improvement, Indian manufacturers reported a worsening of average vendor performance during October. Panel member responses indicated that a combination of higher demand and transportation difficulties due to heavy rains contributed to longer lead times. However, the seasonally adjusted Suppliers' Delivery Times Index registered only slightly below the neutral mark of 50.0, signalling a marginal rate of deterioration.

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	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
	Oct	28.9	63.7	7.4	21.5

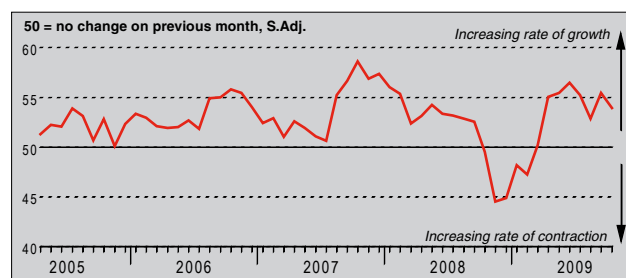


Solid market demand and higher new order volumes led Indian manufacturers to procure additional raw materials in October. The seasonally adjusted Quantity of Purchases Index climbed to a four-month high, pointing to a sharp rise in buying activity. Approximately 29% of survey members raised their input purchases since September, compared with around 7% that reduced them. Even so, the rate of growth remained milder than the historic trend for the series.

Stocks of Purchases Index

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

		Higher %	Same %	Lower %	Net +/-
2009	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
	Oct	16.3	77.8	6.0	10.3



Holdings of pre-production goods at Indian manufacturers continued to grow during the latest survey period. Respondents stated that stockpiling of raw materials reflected the need to meet greater production requirements. Though slightly lower than in September, the seasonally adjusted Stocks of Purchases Index indicated another marked rise in inventory levels during October. Input stocks have increased during every month since March.

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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