

## HSBC India Manufacturing PMI

Indian manufacturing economy expanded solidly in November, albeit at weaker pace

### Summary

The seasonally adjusted HSBC Markit Purchasing Managers' Index™ (PMI™) signalled a solid improvement in the health of India's manufacturing economy. However, growth of output, new business and employment – the three largest components of the PMI – all slowed over the month. The headline index fell from 54.5 in October to 53.0 as a result, indicating that the sector expanded at a slower pace.

Incoming new work to Indian manufacturers rose for the eighth straight month in November, and at a robust pace. Data showed that the home market remained the main driver of total new order growth, as new export business increased only modestly. Better economic conditions, successful promotional activities and strong reputations for quality underlay the expansion, according to panel members.

Indian manufacturers increased their efforts to catch up on unfinished work during the latest survey period. Consequently, outstanding business fell at an accelerated pace, despite further gains in new orders.

Mainly as a result of new business growth, but also due to further backlog depletion, production increased at a marked pace during November.

Greater production requirements led manufacturers to take on more staff and build up stocks in November. Employment continued to rise at a marginal pace, as did holdings of finished goods. Anecdotal evidence suggested that cost pressures prevented faster expansions in these variables. Growth of pre-production inventories was more robust, underpinned by a strong increase in input buying activity. However, rates of growth in both purchases and raw material stocks eased further since October.

The time between order placement at vendors and input deliveries to manufacturing units shortened in November. However, the improvement in average vendor performance was only slight, suggesting that suppliers' workloads remained manageable.

Average input costs rose markedly since October, albeit at the weakest pace for five months. Respondents blamed higher raw material costs for the inflation. To prevent rising purchasing costs from eroding profit margins, firms increased their charges at an accelerated pace. The latest round of output price inflation was the fastest since September 2008.

### Comment

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

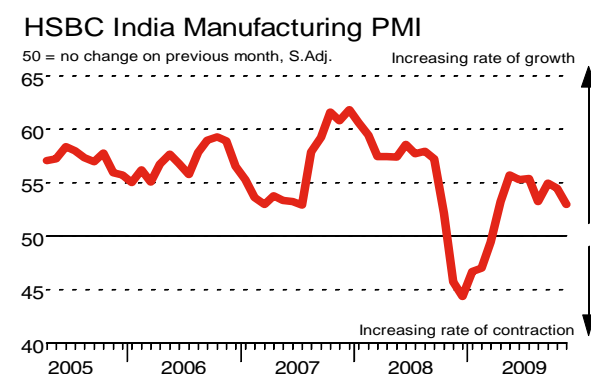
*"While still consistent with a month-on-month expansion of the manufacturing sector, the headline PMI looks to be slowly slipping back. The November index reading of 53.0 was the weakest since March and is down 2.8 points from the recent high in May; the drop driven largely by slower growth in both new orders and output. This is disappointing and fits with the notion that the best of India's industrial recovery is already behind us. In our view, year-on-year industrial production growth will level off over the next few months before dropping back somewhat in 2010 as the domestic inventory build subsides. This doesn't necessarily mean that ex-agriculture GDP growth will soften, however, as the much bigger service sector of the economy will increasingly take up the running in our view.*

*"The ongoing strong rise in input prices looks increasingly to be feeding through into output prices, which showed their strongest rise since September last year. This will continue to be reflected in higher Wholesale Price Inflation which we still expect to hit 8% by March next year."*

### Key points

- Production and new order growth remained marked, despite slowing since October.
- Employment expanded for a second straight month, but only slightly.
- Input price inflation moderated while charges rose at accelerated pace.

### 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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### About Markit Economics:

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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