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HSBC India Manufacturing PMI

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

Key findings:

- 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.

Business conditions faced by Indian manufacturers remained favourable during November. Demand from both domestic and foreign sources continued to rise, leading to another expansion of output. Meanwhile, firms took the opportunity to further raise their charges and employment increased for the second month running.

The seasonally adjusted HSBC Markit Purchasing Managers' Index™ (PMI™) – a headline index designed to measure the overall health of the manufacturing sector – 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.

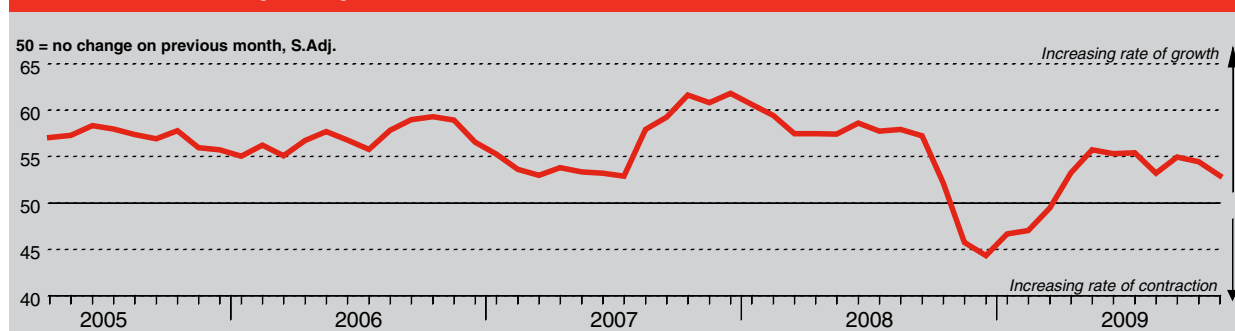
Mainly as a result of new business growth, but also due to further backlog depletion, Indian manufacturing production increased at a marked pace during November.

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 across India's manufacturing industry rose markedly since October, albeit at the weakest pace for five months. Respondents blamed higher raw material costs, particularly those for steel and copper, 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.

HSBC India Purchasing Managers' Index (PMI™)

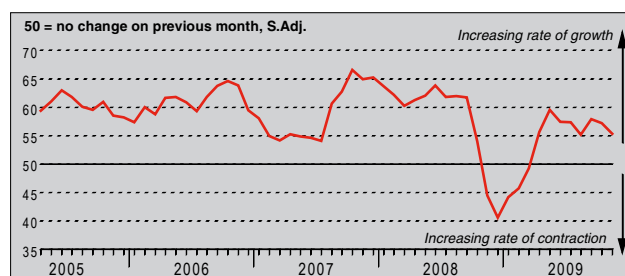


The HSBC India Purchasing Managers' Index (PMI) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, 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	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
	Nov	24.8	60.0	15.2	9.6

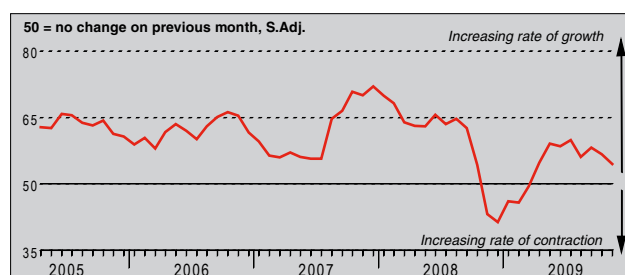


Growth of Indian manufacturing production continued to slow from September's four-month peak during the latest survey period. Nonetheless, with around one-quarter of respondents increasing output in November, the rate of expansion remained marked and above the average for the year. Anecdotal evidence suggested that greater volumes of new orders and further backlog depletion supported the rise in manufacturing activity.

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	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
	Nov	24.0	61.5	14.5	9.5

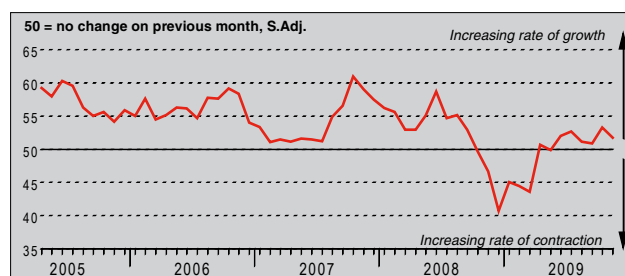


Better economic conditions, successful promotional activity and strong reputations for quality continued to drive demand for Indian manufactures in November. Growth was robust, with 24% of panellists reporting a rise in incoming new work – almost 10% more than those noting a contraction. Firms have recorded higher levels of new business for eight successive months. However, the latest increase was the weakest of the current sequence.

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	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
	Nov	13.5	76.4	10.1	3.5

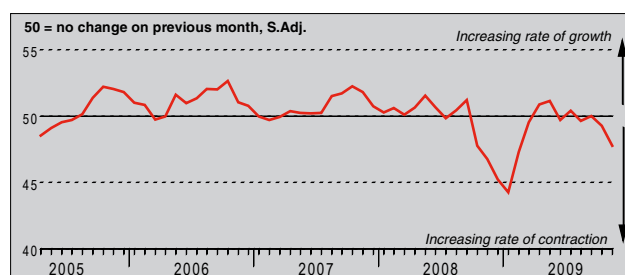


Indian manufacturers reported growth of new export business for the sixth straight month in November. Underpinning the modest increase were improved market conditions abroad, advertising initiatives and good reputations for quality. Some companies also noted that demand from China had picked up. However, the seasonally adjusted New Export Orders Index slipped slightly from October's fourteen-month high to indicate a slowdown in the rate of expansion.

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	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
	Nov	1.0	91.6	7.3	-6.3

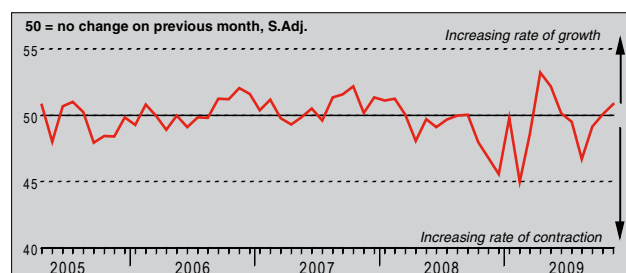


After accounting for seasonal variability, the Backlogs of Work Index fell for the second month running in November. The latest reading, which was the lowest since February, pointed to a moderate decrease in business outstanding at Indian manufacturing units. Moreover, the rate of depletion was faster than the twelve-month series average. Reports suggested that production was raised primarily in an effort to catch up on unfinished work and maintain reputations for good service.

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	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
	Nov	6.4	88.6	4.9	1.5

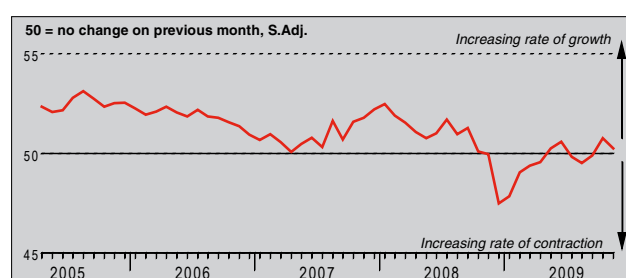


Indian manufacturers added to their stocks of finished goods at an accelerated pace during November. Post-production inventories have now risen for two successive survey periods, following a three-month sequence of contraction. Improved new order levels was the primary factor behind the latest increase. Nonetheless, the rate of expansion was only slight, as most companies (approximately 89%) left their holdings unchanged over the month.

Employment Index

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

		Higher %	Same %	Lower %	Net +/-
2009	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
	Nov	1.9	97.0	1.1	0.8

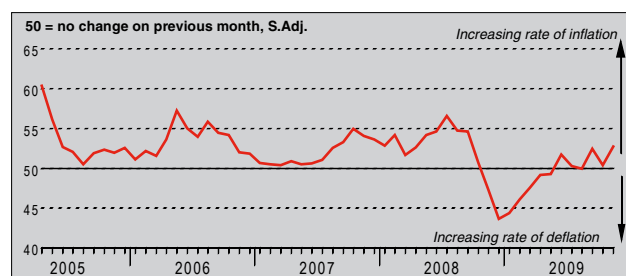


The number of people employed by Indian manufacturers rose in November, but only fractionally. Furthermore, the pace of expansion slowed since October as more of the survey panel chose to maintain their workforces. Where companies took on more staff, this was mostly a reaction to greater production demands resulting from higher volumes of new orders. Where job shedding was reported, this was linked to cost pressures.

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	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
	Nov	10.3	84.7	5.0	5.3

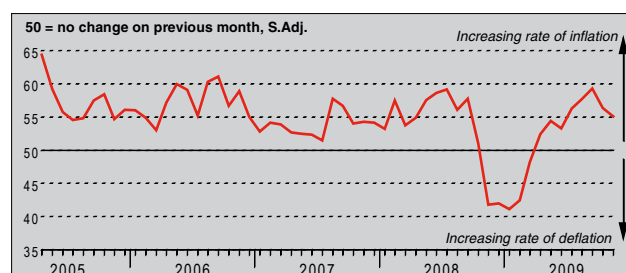


More than one-tenth of surveyed Indian manufacturers raised their charges during the latest survey period. Factory gate prices have increased for three months in succession. Furthermore, inflation accelerated in November to a moderate pace that was the most marked since September last year. Panel members attributed the rise to higher input costs and the need to protect profit margins. However, the increase remained weaker than the pre-crisis average.

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	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
	Nov	16.4	76.0	7.6	8.8

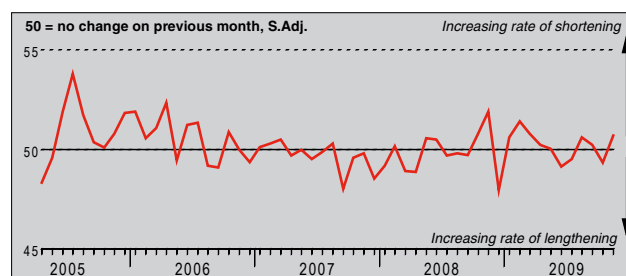


Purchasing costs faced by Indian manufacturers continued to climb during November, extending the current period of inflation to eight months. The rate of increase was marked, which survey participants generally linked to greater raw material prices. Higher steel and copper costs were particularly commented on by several companies. However, inflation moderated for the second consecutive month to the mildest pace since June.

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	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
	Nov	4.3	93.7	2.0	2.3

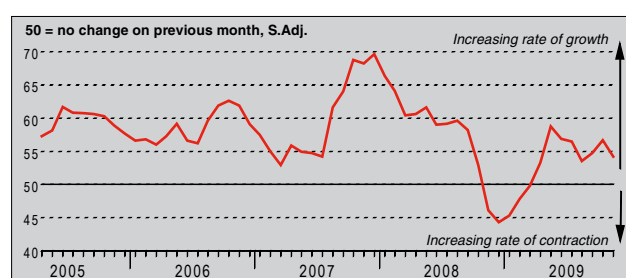


The seasonally adjusted Suppliers' Delivery Times Index pointed to a marginal improvement in average vendor performance during November. The index has remained close to the 50.0 no-change mark since March, indicating that workloads at suppliers have been largely manageable over this period, despite rising demand for inputs from Indian manufacturers. The vast majority of firms (around 94%) saw no alteration in lead times since October.

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	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
	Nov	20.8	66.6	12.6	8.2

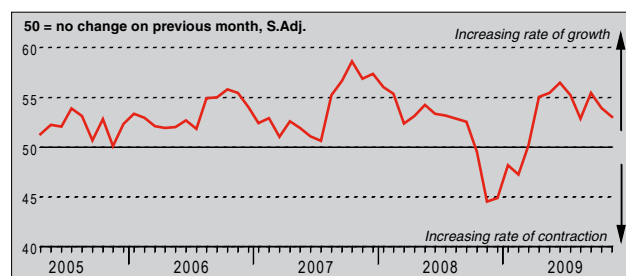


The quantity of raw materials acquired by Indian manufacturers continued to expand in November, extending the current sequence of growth to eight months. More than one-fifth of panellists recorded increased buying activity during the latest survey period, stating that purchases were raised in line with production requirements. However, the rate of increase eased over the month to a solid pace that was the weakest since August.

Stocks of Purchases Index

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

		Higher %	Same %	Lower %	Net +/-
2009	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
	Nov	12.9	78.7	8.5	4.4



Indian manufacturers added to their holdings of raw materials during November, as they have done since April. With around 13% of panellists citing an increase, growth was solid but weaker than in the previous two months. Moreover, the expansion was slower than the average for the current sequence. Anecdotal evidence suggested that stocks were accumulated to support higher production requirements and in expectation of further growth in new business.

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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