

HSBC India Manufacturing PMI

PMI rose in December to signal marked improvement in operating conditions

Summary

The seasonally adjusted HSBC Markit Purchasing Managers' Index™ (PMI™) climbed to its highest level since May at the end of Q4, signalling a faster month-on-month improvement in the health of the Indian manufacturing economy. The PMI has now posted above the no-change threshold of 50.0, signalling expansion, for nine consecutive survey periods. This followed a five-month sequence below the neutral level.

Underpinning the improvement in the PMI were similarly-sharp rises in the indices tracking trends in new work and output. December data pointed to a substantial increase in new business received by Indian manufacturers. Growth was the most marked for fifteen months, which panellists attributed to better economic conditions, business investments, promotional activities and strong reputations for quality. Demand from both domestic and foreign sources rose since November, although the home market remained the main driver of total new business expansion. To accommodate a faster inflow of new work, manufacturers raised production for the ninth straight month and at a considerable pace.

Despite further growth of new orders, latest data suggested that workloads at Indian manufacturers remained manageable in December. Levels of both outstanding business and employment were broadly unchanged on the month.

Indian manufacturers took advantage of favourable demand conditions in December, passing on part of their cost burdens to customers via higher tariffs. Charges were raised for the fourth month running and at a moderate pace similar to that recorded in November. However, purchasing costs rose more quickly than factory gate prices. Input price inflation accelerated to the fastest pace since September. Respondents highlighted the main source of upward pressure as greater raw material costs. Firms particularly commented on increased fuel, electricity, metal, chemical and food-related expenses.

Faster input price inflation did not deter Indian manufacturers from acquiring more raw materials in December. Buying activity rose at an accelerated pace in line with further new order growth. Moreover, the latest expansion of purchases was sufficient to build additional stocks of pre-production goods. Consequently, input holdings increased for the tenth successive month and at a moderate pace (albeit more slowly than in November).

Comment

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

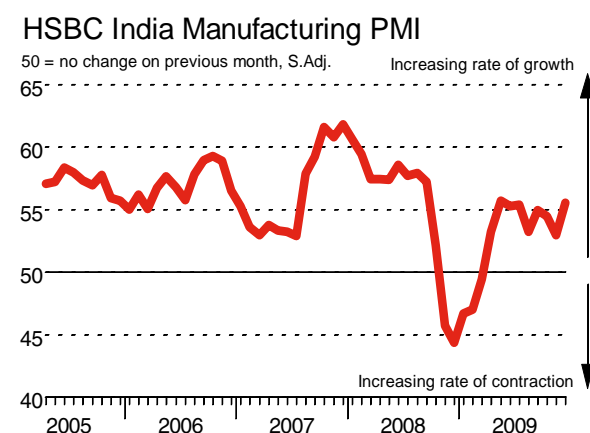
"Concerns that growth in India's manufacturing sector was taking a decisive turn for the worse should be allayed by this impressive release. While the headline index didn't quite manage to hit a new cycle high it wasn't far away at 55.6, buoyed by stronger gains in the output and orders components. The rise in the new exports orders index suggests that external demand is also playing an increasingly important role in driving output gains."

"Nevertheless, the release suggests that most manufacturing companies remain cautious about the durability of the recovery. They remain reluctant to hire workers, with the employment balance a touch below 50.0, as well as pass on much of the strong rises in input costs into higher output prices. Both factors will change over time, however, if we are right in suggesting that the economic recovery will continue at a robust pace."

Key points

- Manufacturing activity grew at accelerated pace, driven by faster expansion in new work.
- Employment levels broadly unchanged since November.
- Input price inflation accelerated, while charges continued to increase solidly.

Historical Overview



For further information, please contact:

HSBC

Robert Prior-Wandesforde, Senior Asian Economist

Telephone +65-6239-0840

Email robert.prior-wandesforde@hsbc.com.sg

Rajesh Joshi

Telephone +91-22-2268-1695

Email rajeshjoshi@hsbc.co.in

Daylon DCruz

Telephone +91-22-2268-1344

Email daylondcruz@hsbc.co.in

Markit

Gemma Wallace, Economist

Telephone +44-1491-461-075

Email gemma.wallace@markit.com

Claire Gorman, Corporate Communications

Telephone +44-20-7064-6032

Email claire.gorman@markit.com

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 500 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.

HSBC:

HSBC Holdings plc, the parent company of the HSBC Group, is headquartered in London. The Group serves customers worldwide from around 8,500 offices in 86 countries and territories in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa. With assets of US\$2,422 billion at 30 June 2009, HSBC is one of the world's largest banking and financial services organisations. HSBC is marketed worldwide as 'the world's local bank'.

About Markit:

Markit is a leading global financial information services company with over 1,300 employees. The company provides independent data, valuations and trade processing across all asset classes in order to enhance transparency, reduce risk and improve operational efficiency. Its client base includes the most significant institutional participants in the financial market place.

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.

The intellectual property rights to the HSBC India Manufacturing PMI provided herein is owned by Markit Group Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Markit, PMI and Purchasing Managers' Index are all trademarks owned by The Markit Group.