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HSBC India Manufacturing PMI

PMI rose in December to signal marked improvement in operating conditions.

Key findings:

- 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.

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

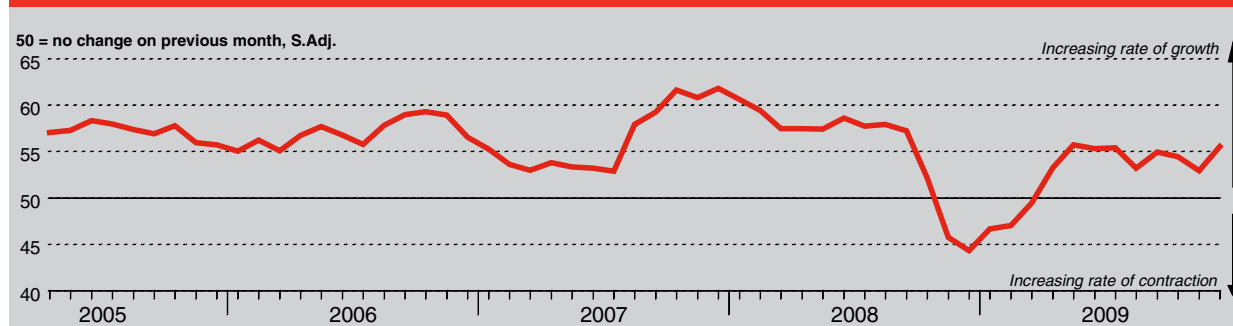
employment were broadly unchanged on the month.

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).

Lead times on raw material deliveries to Indian manufacturers were largely unchanged in December, despite stronger demand for inputs. Average vendor performance has been broadly consistent for the past ten survey periods.

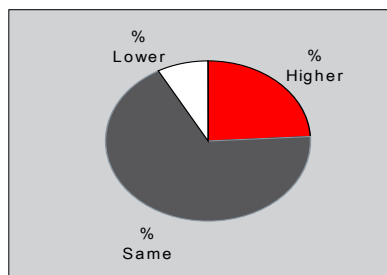
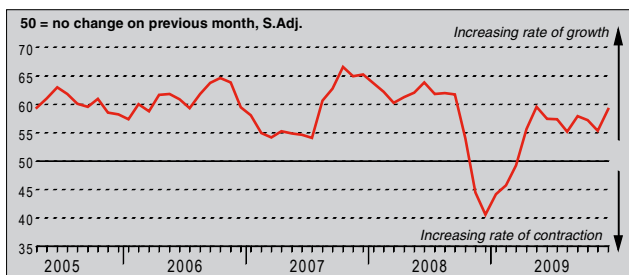
HSBC India Purchasing Managers' Index (PMI™)



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

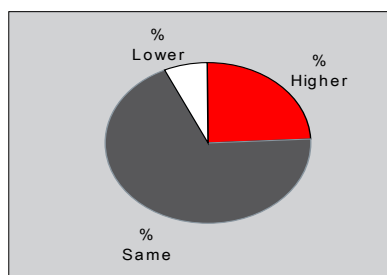
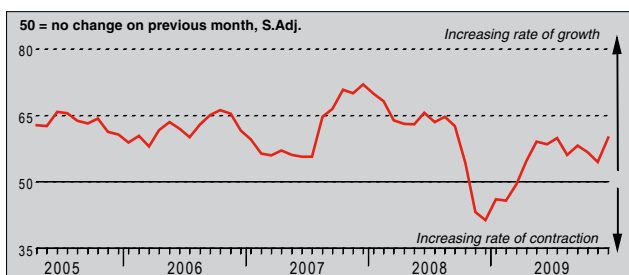
Q. Please compare your production/output this month with the situation one month ago.



Indian manufacturers continued to raise activity levels at the end of the year's final quarter. Production in the sector has now increased for nine months in a row, primarily driven by growth of new business. December's seasonally adjusted Output Index reading signalled a substantial rate of expansion that was the fastest since September 2008. More than 24% of firms noted higher output on the month, against just 8% that cut production.

New Orders Index

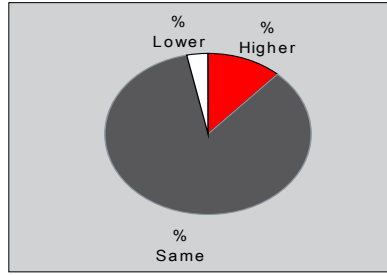
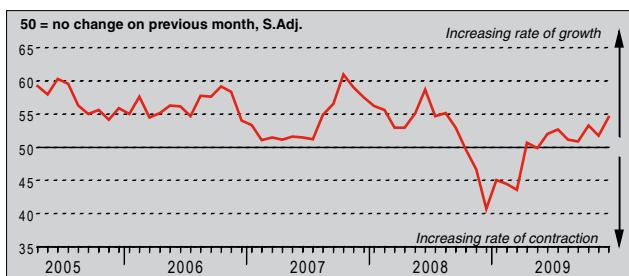
Q. Please compare the level of new orders received (India and export) this month with the situation one month ago.



The seasonally adjusted New Orders Index climbed sharply to a fifteen-month high in December, with just under one-quarter of the survey panel noting stronger demand for their goods. Indian manufacturers highlighted better economic conditions, business investments, advertising and good reputations as the principal reasons for the latest expansion. Data showed that the home market remained the principal driver of total new business growth, as new export orders rose at a relatively modest pace.

New Export Orders Index

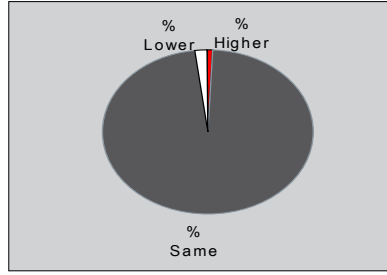
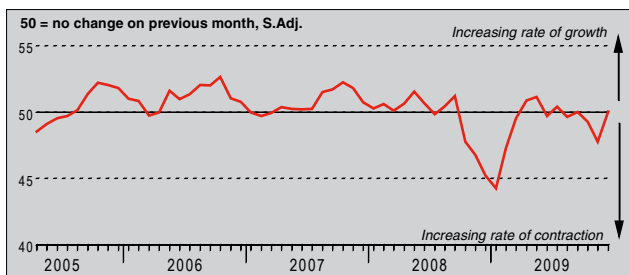
Q. Please compare the level of new export orders received this month with the situation of one month ago.



After moderating during the previous survey period, growth of export sales at Indian manufacturers improved in December. Incoming new work from abroad increased at an accelerated pace that was the most marked since August 2008. Panel members attributed higher new export order levels to more favourable global economic conditions, strong reputations for quality and promotional activities. Even so, by pre-downturn standards, the latest rate expansion was relatively subdued.

Backlogs of Work Index

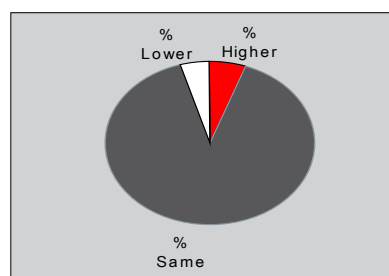
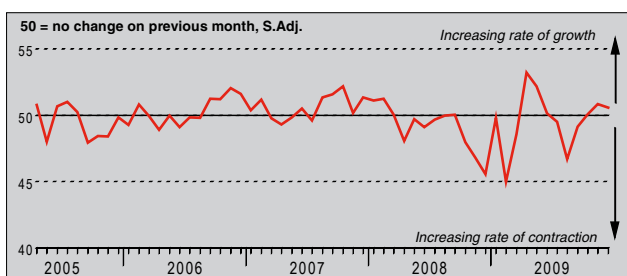
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Latest survey data suggested that workloads at Indian manufacturing units remained manageable in December, despite sharp growth of incoming new business. After accounting for seasonal variation, the Backlogs of Work Index registered close to the no-change threshold of 50.0, though posted its highest level for five months. The vast majority of respondents reported no difference in volumes of outstanding business at their plants to those recorded in November.

Stocks of Finished Goods Index

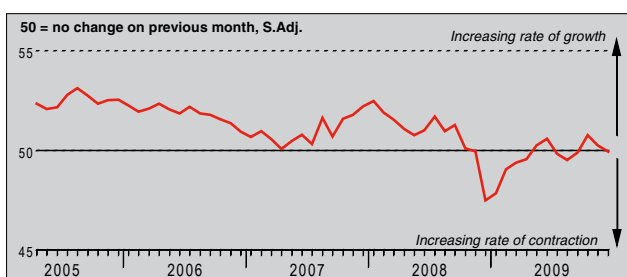
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



For the third straight month in December, Indian manufacturers added to their holdings of finished goods. Survey participants stated that inventories were increased in order to accommodate higher sales levels. That said, the pace of accumulation was only marginal, and slower than in November. Just 5.5% of companies raised post-production stocks over the month, compared with 4.4% that reduced them. Stronger demand was the main reason for inventory depletion, according to reports.

Employment Index

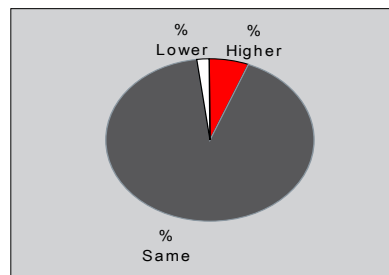
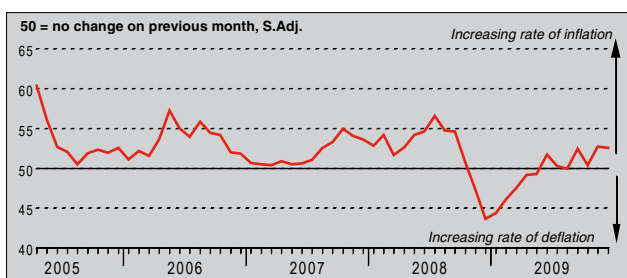
Q. Please compare the level of employment at your unit with the situation one month ago.



Staffing levels across India's manufacturing economy were broadly unchanged at the end of Q4, as indicated by the seasonally adjusted Employment Index posting close to the neutral mark of 50.0. December's index reading was down further from October's thirteen-month high. Where more workers were taken on, firms cited greater production requirements and business expansions. Those that cut jobs commented that this was largely a result of attempts to manage costs.

Output Prices Index

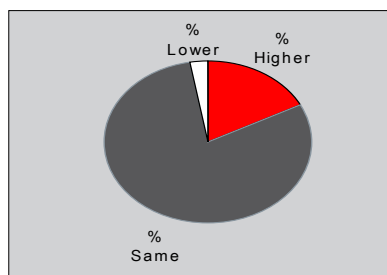
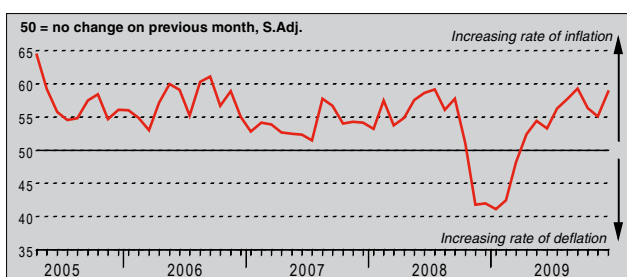
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Indian manufacturers raised their charges at a moderate pace in December. Data signalled that inflation was little-changed from the previous month, remaining above the series long-run average. Tariffs were increased to take advantage of favourable demand conditions and to pass through higher cost burdens to customers, according to anecdotal evidence. However, reports suggested that market competition prevented a faster rise in factory gate prices.

Input Prices Index

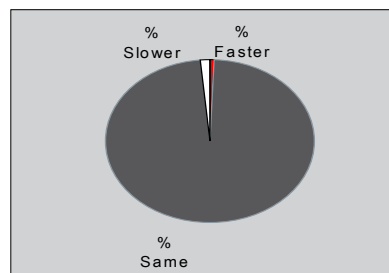
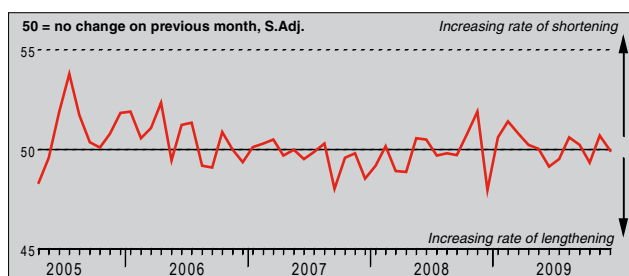
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Input price inflation accelerated during December to a three-month peak. Furthermore, the rapid rate of increase was noticeably faster than the series pre-downturn average. Greater raw material prices were behind the latest rise in input costs, with panel members making particular reference to higher fuel, electricity, metal, chemical and food-related expenses. Less than 3% of firms saw a fall in their average cost burdens, compared with approximately 18% that recorded a rise.

Suppliers' Delivery Times Index

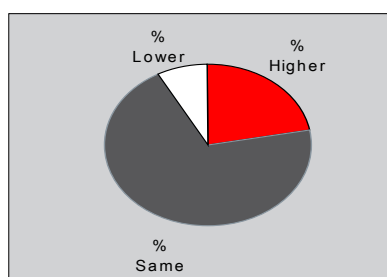
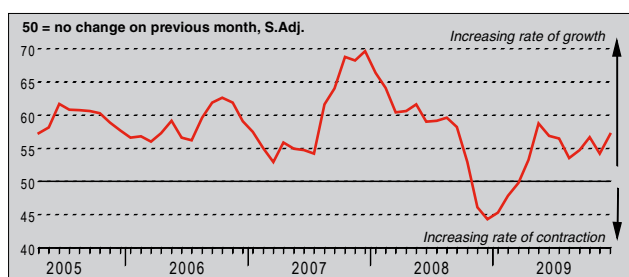
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Indian manufacturers saw no real difference in December's lead times from those registered one month earlier. The seasonally adjusted Suppliers' Delivery Times Index has not strayed more than one point from the no-change mark of 50.0 since March, suggesting that average vendor performance has been broadly consistent over this period. Where longer delivery times were noted, companies predominantly linked this to higher demand for inputs and raw material shortages.

Quantity of Purchases Index

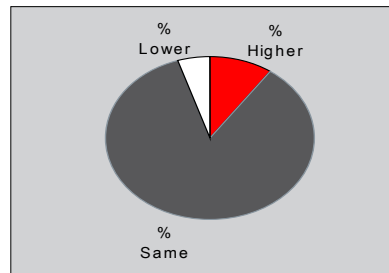
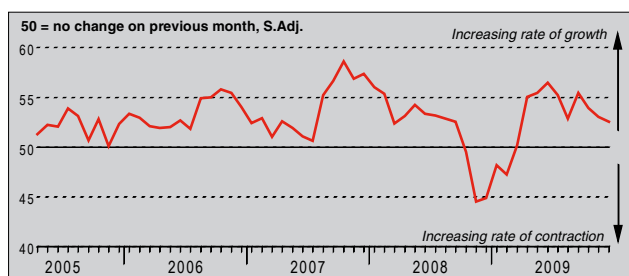
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



In line with trends in new business and production, Indian manufacturers raised their input purchases during the latest survey period. Moreover, growth accelerated since November to a considerable pace that was the most marked for seven months. Companies indicated that buying activity was increased both to meet current production requirements and to build inventories. Firms have acquired increased levels of raw materials for nine months in succession.

Stocks of Purchases Index

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



Inventory expansion policies at Indian manufacturers continued during December, both to meet current production requirements and in anticipation of future demand growth. Pre-production holdings rose solidly, extending the current sequence of accumulation to ten months. However, the pace of increase was weaker than over the previous eight survey periods, partly reflecting the acceleration in manufacturing output growth.

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 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 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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