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HSBC India Manufacturing PMI

Indian manufacturing sector expanded at fastest pace for nearly one-and-a-half years in January.

Key findings:

- Production raised considerably to accommodate faster new order growth.
- Employment increased, albeit only slightly.
- Input and output prices rose at accelerated rates.

The Indian manufacturing sector began 2010 on a firm footing, with both new orders and output expanding considerably and at accelerated rates. This was in stark contrast to the situation around the turn of 2009, when production and new business contracted at rapid rates. Although the recovery in employment has yet to really gain traction, the marginal pace of job creation in January was nevertheless the fastest since September 2008. Meanwhile, input and output prices rose at sharp and accelerated rates.

Climbing to 57.6 in January, its highest level for seventeen months, the seasonally adjusted HSBC Markit Purchasing Managers' Index™ (PMI™) – a headline index designed to measure the overall health of the manufacturing sector – signalled a considerable improvement in operating conditions faced by Indian manufacturers. The headline index has now signalled expansion of the sector since April 2009, and at increasing rates for the past two survey periods.

Indian manufacturers sharply raised their output levels during the latest survey period, in line with the upward trend in new work. Production and new orders have both increased for ten straight months, with the latest gains above their pre-downturn averages. Data showed that domestic and foreign demand rose considerably since December. The improvement in external demand was noticeable, although total new business growth continued to increase at a rate above export orders.

Reflecting greater workloads, respondents noted a build-up of unfinished business during January. However, the rate of

accumulation was only weak, as many firms increased efforts to catch up on backlogs.

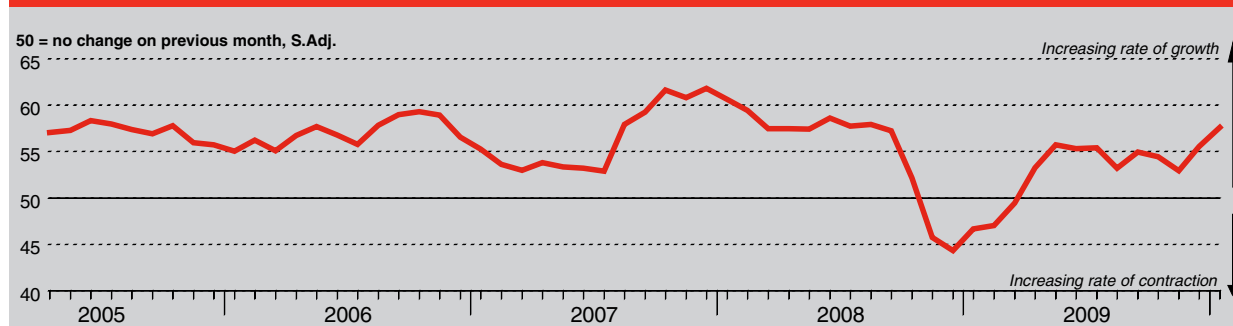
Data pointed to slight growth of Indian manufacturing industry employment in January, which panellists linked to higher production requirements and capacity constraints. Although only weak, the increase was the strongest for almost a year-and-a-half.

In order to accommodate rising production requirements, and to re-build depleted stocks, Indian manufacturers purchased more inputs in the first month of the new year. Buying activity grew at a substantial pace that was the fastest since May 2008. Additional demand for raw materials placed pressure on suppliers' capacities. Consequently, lead times lengthened for the second month running, albeit only slightly. Transportation difficulties also contributed to the deterioration in average vendor performance, according to respondents.

Indian manufacturers' average purchasing costs rose rapidly during January. Moreover, the latest round of inflation was the fastest in the survey's fifty-eight month history. Reports indicated that higher raw material prices drove the increase. Firms made particular reference to the greater costs of metals, food products, plastics, rubber and chemicals.

Primarily to protect profit margins, manufacturers raised their charges at a substantial pace in January. The increase was the quickest for one-and-a-half years.

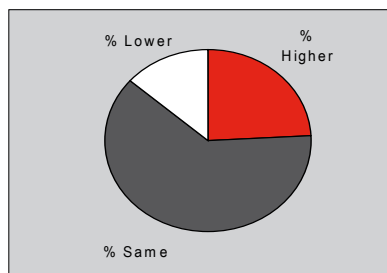
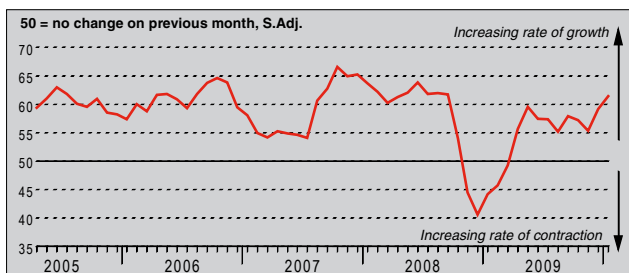
HSBC India Purchasing Managers' Index (PMI™)



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

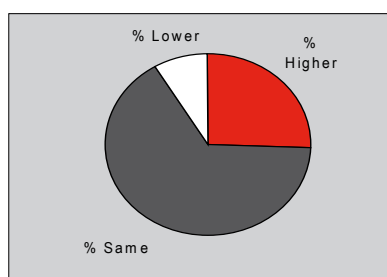
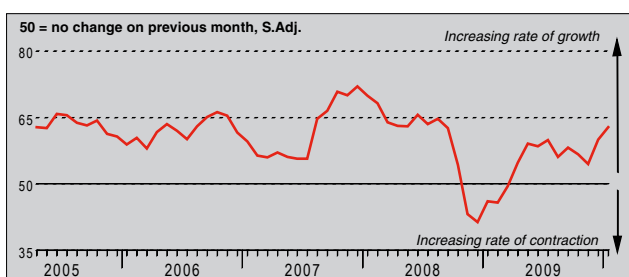
Q. Please compare your production/output this month with the situation one month ago.



Production growth at Indian manufacturers was driven to a sixteen-month high in January as order books expanded further. Data pointed to a considerable rate of increase that was stronger than the pre-downturn trend and in sharp contrast to the rapid contraction recorded at the beginning of last year. Output from the industry has now risen for ten consecutive survey periods – twice as long as the recent sequence of decline (which ended in March 2009).

New Orders Index

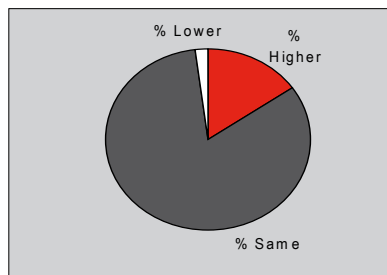
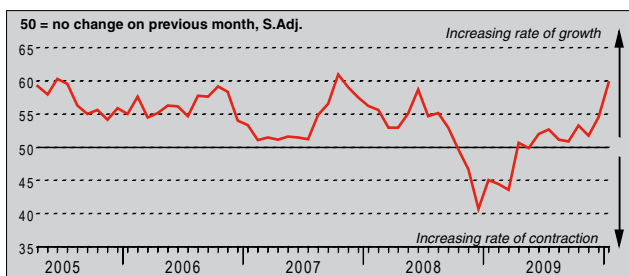
Q. Please compare the level of new orders received (India and export) this month with the situation one month ago.



Both domestic and foreign demand conditions were favourable during January, as shown by substantial rises in overall new work to Indian manufacturers. Consequently, the seasonally adjusted New Orders Index registered its highest reading since August 2008. Anecdotal evidence suggested that good reputations for quality, promotional initiatives and company expansions had also helped panellists to secure more new business.

New Export Orders Index

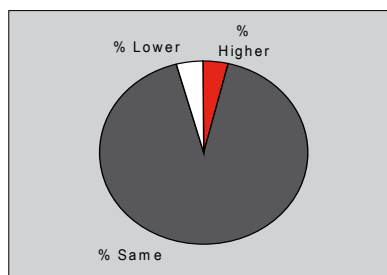
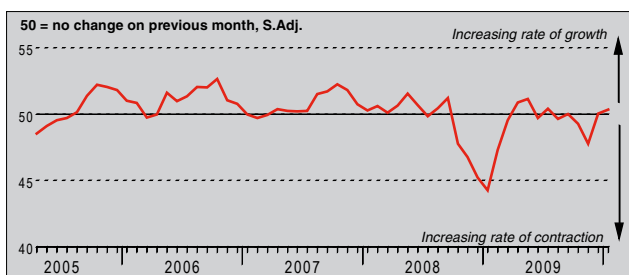
Q. Please compare the level of new export orders received this month with the situation of one month ago.



External demand for Indian manufactures improved noticeably during the latest survey period. Incoming new work from abroad grew at a considerable pace that was the most marked for twenty-seven months. Only 2% of panel members saw their new export orders fall in January – the smallest proportion since September 2008. In comparison, more than 15% of companies recorded an expansion. Respondents stated that better global economic conditions primarily underpinned the latest growth, although successful advertising also played a part.

Backlogs of Work Index

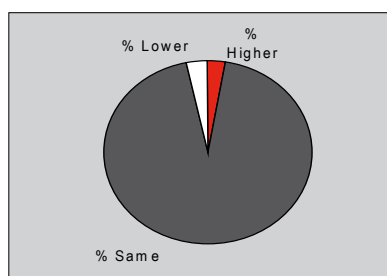
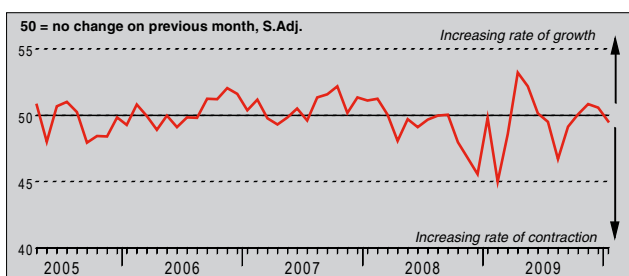
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



After accounting for seasonal variation, the Backlogs of Work Index was little-moved in January from its position in December. The latest figure signalled another marginal rise in volumes of work-in-hand at Indian manufacturers. The vast majority of the survey panel (around 92%) maintained levels of outstanding business over the month. Where firms recorded a build-up, this was largely attributed to greater workloads. Where falling backlogs were noted, panellists commented on increased efforts to catch up on unfinished work.

Stocks of Finished Goods Index

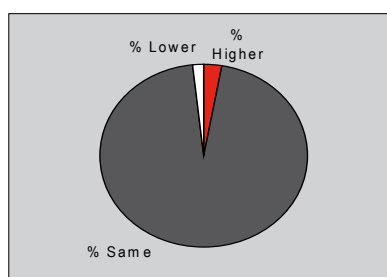
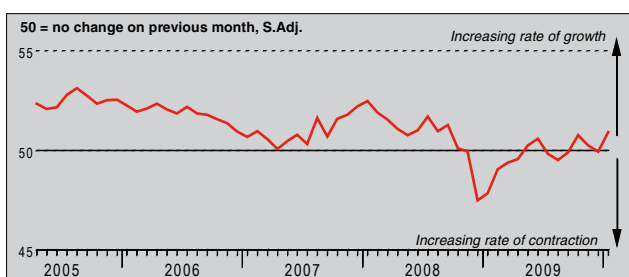
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Post-production holdings at Indian manufacturers contracted fractionally during the first month of the year, which panel members attributed to a combination of inventory-control policies and stronger demand for their products. The seasonally adjusted Stocks of Finished Goods Index has not moved more than one point either side of the neutral mark of 50.0 for five straight months, suggesting that inventory levels have been broadly maintained over this period.

Employment Index

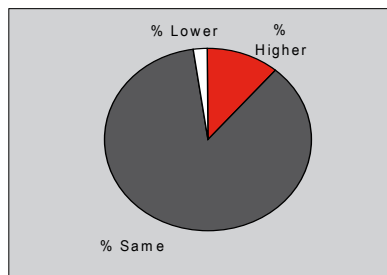
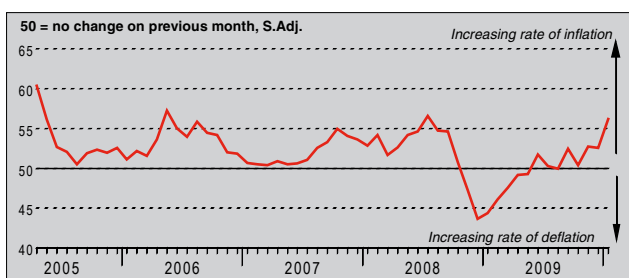
Q. Please compare the level of employment at your unit with the situation one month ago.



Data pointed to a weak rate of job creation across India's manufacturing sector during January, following a fractional contraction in December. Slight growth of employment has been recorded in three of the past four survey periods, and the latest pace of expansion was both the fastest for sixteen months and above the average for the past three years. Respondents noted that personnel were hired in response to rising workloads and capacity constraints.

Output Prices Index

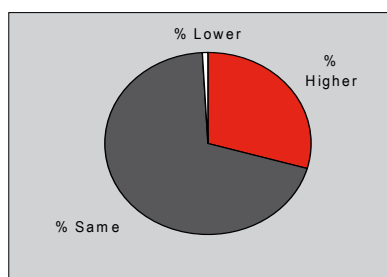
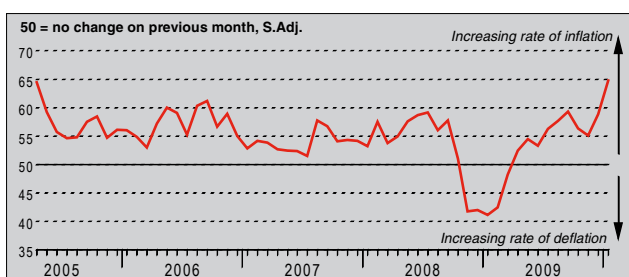
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



The seasonally adjusted Output Prices Index climbed sharply in January, reaching a one-and-a-half year high. The latest index reading, which indicated a substantial rate of inflation, was comfortably above the pre-downturn trend for the series. A quicker increase in raw material costs principally led manufacturers to raise their charges, although some firms did so to take advantage of favourable demand conditions. Factory gate prices have been generally climbing since June 2009, following a seven-month period of decline.

Input Prices Index

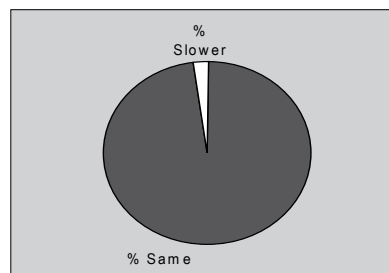
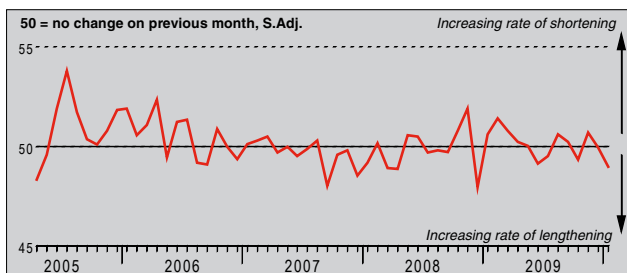
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Indian manufacturers faced a rapid increase in their average purchasing costs during January, as shown by a jump in the seasonally adjusted Input Prices Index to a series-record peak. Approximately 30% of companies noted a rise in their overall cost burdens since December, compared with just 1% that reported a decrease. Survey participants blamed greater raw material prices for the inflation (particularly metals, food products, plastics, rubber and chemicals prices).

Suppliers' Delivery Times Index

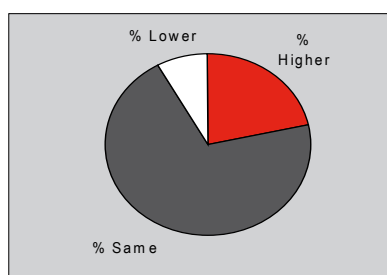
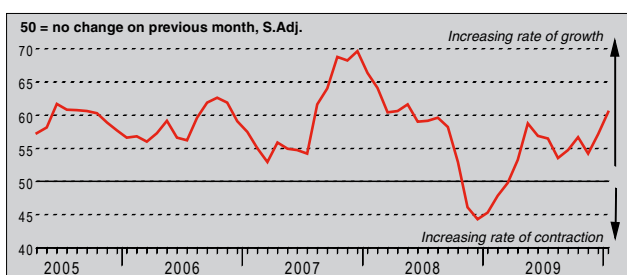
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Latest data pointed to a second consecutive monthly deterioration of average vendor performance. Moreover, lead times on raw material deliveries to Indian manufacturers lengthened at an accelerated pace, as shown by a second straight fall in the seasonally adjusted Suppliers' Delivery Times Index to its lowest level in over a year. Capacity constraints at vendors and transportation difficulties underlay the deterioration, according to respondents.

Quantity of Purchases Index

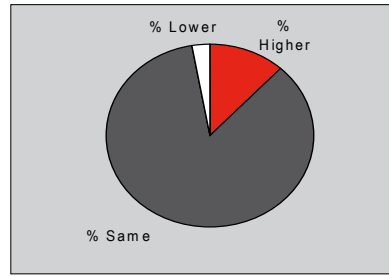
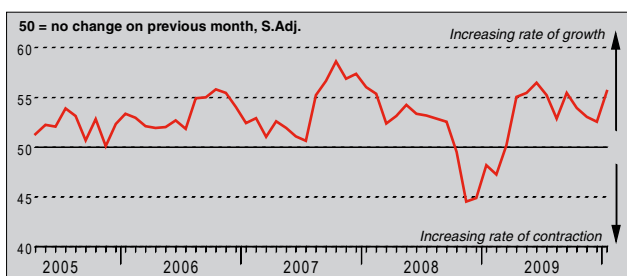
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Raw material purchases made by Indian manufacturers continued to increase at the start of Q1, extending the sequence of growth to ten months. Furthermore, the pace of expansion accelerated for the second month running, with the latest rise the most marked since May 2008. Panel members stated the main reasons for greater purchasing activity in January as higher new order levels and re-stocking, due to an improved business environment.

Stocks of Purchases Index

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



The seasonally adjusted Stocks of Purchases Index gained ground in January, reaching a seven-month high. The latest reading, which was above the series average, signalled that Indian manufacturers added to their input holdings at a marked pace. Anecdotal evidence indicated that inventories were raised in order to meet greater production requirements. Exactly 12% of surveyed firms noted an accumulation of raw material holdings, against less than 3% that reported a contraction.

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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