HSBC Purchasing Managers' Index Press Release

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HSBC India Manufacturing PMI

Indian manufacturing continued to gain strength in February, with output, new orders and employment all rising at faster rates

Summary

The seasonally adjusted HSBC Markit Purchasing Managers' Index™ (PMI™) climbed for the third month running in February. At 58.5, up from 57.6 at the start of Q1, the index pointed to a considerable improvement in operating conditions faced by Indian manufacturers.

Underpinning the latest rise in the headline index were faster increases in new orders, output and employment.

Overall new business received by Indian manufacturers rose sharply in February. Data indicated that the increase was the most marked for a year-and-a-half and primarily supported by strong gains in domestic new orders. Although growth of incoming new work from abroad moderated on the month, it remained strong and above its pre-crisis trend. Better global economic conditions, successful advertising campaigns and good company reputations all contributed to the latest expansion, according to respondents. Production levels were raised substantially to accommodate the increase in new work.

Manufacturers had to use part of their existing holdings of finished goods to meet sales levels in February. Consequently, post-production holdings fell slightly. Meanwhile, pre-production inventories continued to expand, as firms reacted to market demand and raised their buying activity. Raw material purchases rose at a considerable pace that was the fastest for two years.

Despite stronger demand for inputs, vendors managed to reduce their delivery times, albeit only marginally. The index tracking trends in average supplier performance has registered close to the neutral level of 50.0 for a year, suggesting that lead times have been largely unchanged over this period.

As workloads mounted in February, Indian manufacturers noted a slight build up of outstanding business. To meet production requirements and ease pressures on capacity, companies took on new staff at a moderate pace that was the most pronounced for nineteen months.

Input price inflation remained sharp during the latest survey period, with panellists reporting greater fuel and raw material costs. Higher prices for metals were particularly commented on by several firms. However, the rate of increase eased on January's series peak.

Charge inflation slowed to a modest pace in February from the previous month's one-and-a-half year high, which respondents linked to greater competitive pressures.

Comment

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

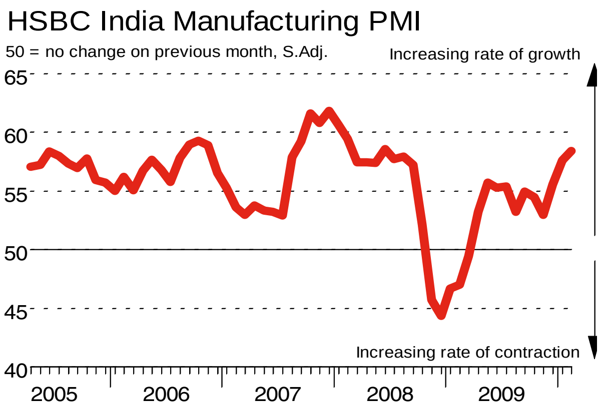
"Having wobbled slightly towards the end of last year, India's manufacturing PMI has now shown three consecutive improvements, hitting levels last seen in mid-2008. At 58.5, the headline index is consistent with on-going double digit gains in industrial production which in turn is likely to mean that spare capacity is being eaten into rapidly. Although the output prices balance surprisingly dropped back in February (while remaining consistent with price gains) there is more and more evidence of emerging supply-side constraints in labour and product markets. The breakdown of the PMI, for example, indicates that the balance of companies are now hiring again and at an historically robust rate. In our view, it is time to start unwinding the monetary stimulus and we would be very surprised if the RBI were not to raise policy rates at the 20 April meeting.

"While new export orders grew less strongly in February than January this didn't prevent the overall new orders series from hitting a high in the current upturn. The same was also true of output growth, which has rarely shown such strength since the series began in April 2005."

Key points

- Domestic market drove latest rise in new orders....
- ...although new export business continued to grow markedly.
- Employment rose at sharpest pace for nineteen months.

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 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:

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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.