

Embargoed until: 10:30 (MUMBAI), 1 March 2010

HSBC India Manufacturing PMI

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

Key findings:

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

India's manufacturing economy continued to expand at a rate above its pre-crisis trend in February, buoyed by strong demand both from home and abroad. Improved economic conditions and a slight build up of capacity pressures led companies to take on workers at an accelerated pace. However, strong competition restricted manufacturers' pricing power. Charges rose at the weakest rate since last October as a result, despite another sharp increase in average input costs.

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

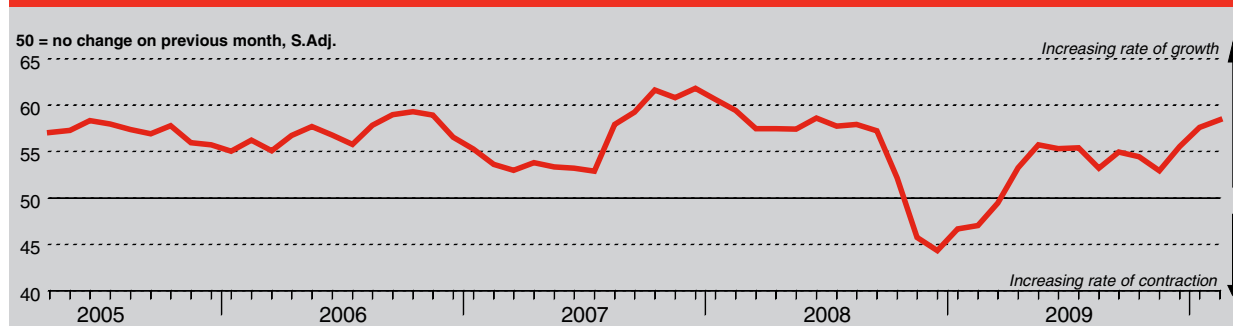
Despite stronger demand for inputs, vendors managed to reduce their delivery times, albeit only marginally. The index tracking trends in average supplier performance has registered close to the neutral level of 50.0 for a year, suggesting that lead times have been largely unchanged over this period.

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.

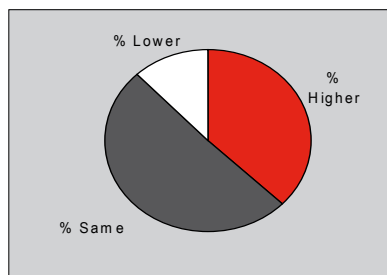
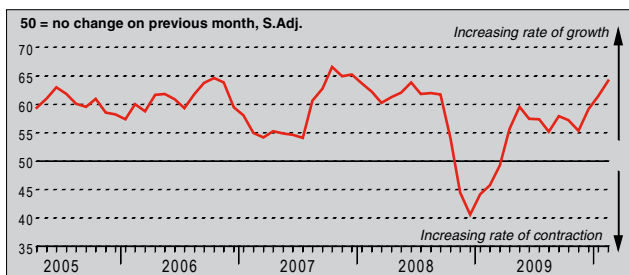
HSBC India Purchasing Managers' Index (PMI™)



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

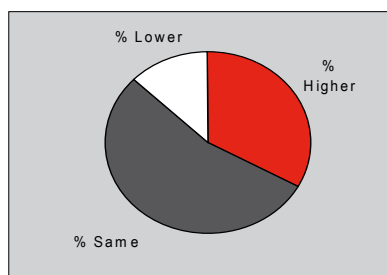
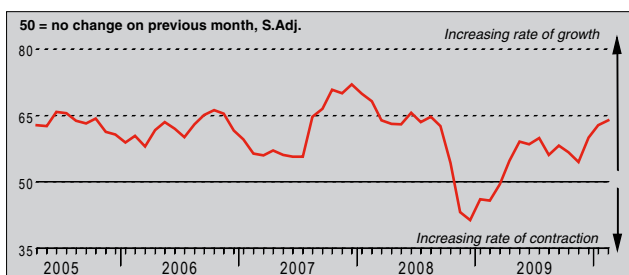
Q. Please compare your production/output this month with the situation one month ago.



Indian manufacturing registered an eleventh consecutive monthly expansion of output in February. Furthermore, the considerable rate of growth was the most pronounced since December 2007 and comfortably above the pre-crisis trend. Over 37% of monitored companies raised production levels over the latest survey period, with favourable demand conditions and a strong inflow of new business cited as key underlying factors.

New Orders Index

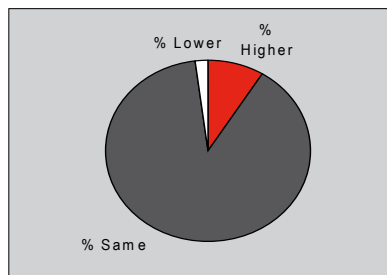
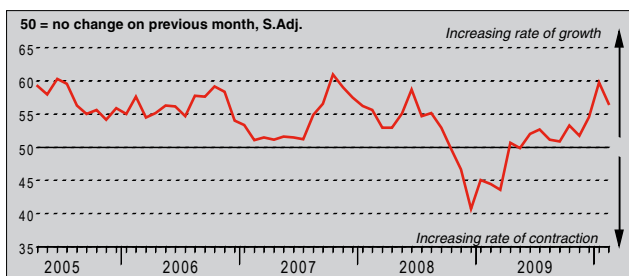
Q. Please compare the level of new orders received (India and export) this month with the situation one month ago.



Improved demand conditions at home and abroad, alongside greater efforts to promote new products and good reputations for quality, were all given as reasons for new order growth by Indian manufacturers in February. Data showed that total new work increased for the eleventh month running, and at an accelerated pace. With about one-third of respondents receiving more new business than in January, the sharp expansion was the fastest since August 2008.

New Export Orders Index

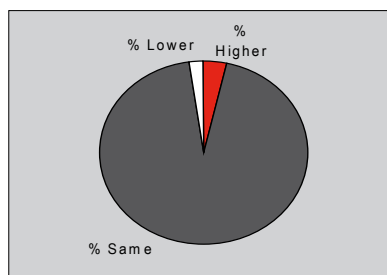
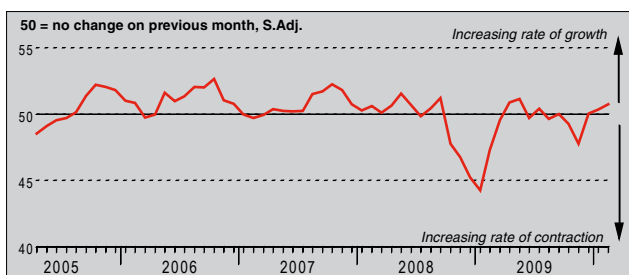
Q. Please compare the level of new export orders received this month with the situation of one month ago.



After a marked improvement in external demand at the start of the year, growth of new export orders at Indian manufacturers slowed in February. Nevertheless, the pace of expansion remained strong and above the average monthly increases of foreign new business seen prior to the recent downturn. Promotional activities abroad, strong company reputations and better global economic conditions all supported demand, according to anecdotal evidence.

Backlogs of Work Index

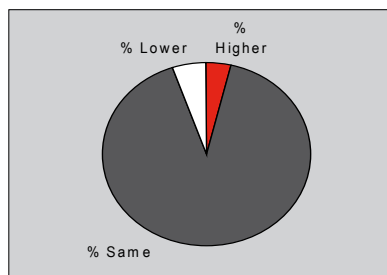
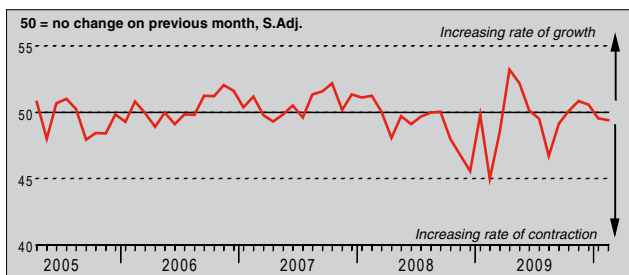
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Indian manufacturers largely managed to keep on top of workloads during the latest survey period, despite faster growth of new orders. The seasonally adjusted Backlogs of Work Index remained close to the 50.0 no-change mark, indicating that volumes of outstanding business rose only slightly in February. However, the index has risen during every month since December, suggesting a tentative development of capacity pressures in the sector.

Stocks of Finished Goods Index

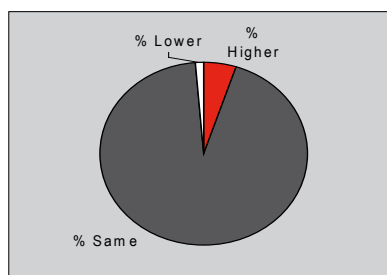
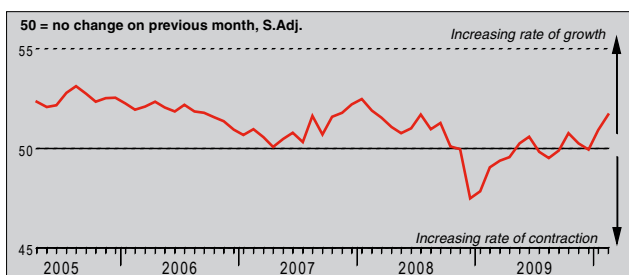
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Holdings of completed products at Indian manufacturers contracted slightly in February for the second month running. Reports indicated that strong demand had led to the marginal drop in inventories. The seasonally adjusted Stocks of Finished Goods Index has not strayed more than one point from the 50.0 no-change threshold throughout the past six months, suggesting that overall inventory levels have been broadly maintained over this period.

Employment Index

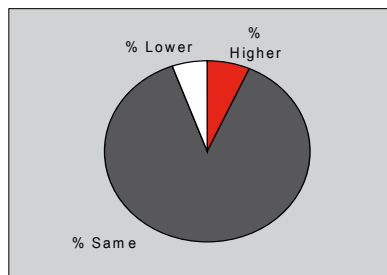
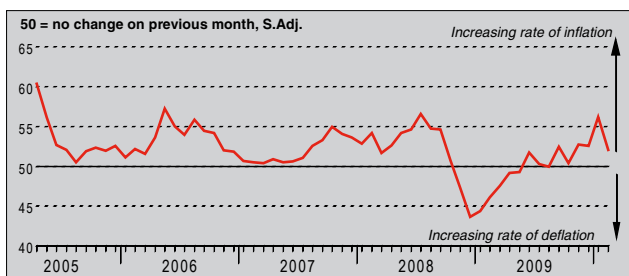
Q. Please compare the level of employment at your unit with the situation one month ago.



To cope with higher workloads and also ease pressures on capacity, Indian manufacturers hired more personnel during February. Manufacturers have taken on new staff in six of the past ten survey periods. Data showed that the latest increase was the second in a row and the fastest for nineteen months. Although only moderate, the expansion was also more marked than average employment growth prior to the recent downturn.

Output Prices Index

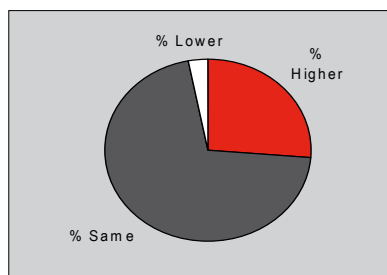
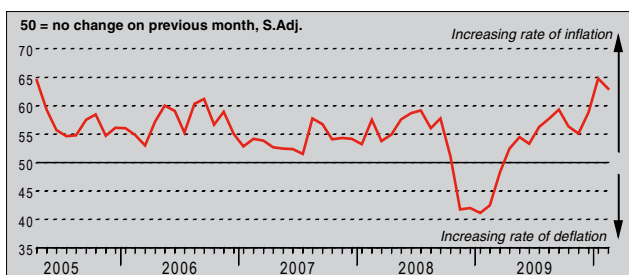
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Survey data signalled another rise in prices charged for Indian manufactures in February. Companies stated that they took advantage of favourable demand conditions to increase their tariffs and pass on part of their greater cost burdens to customers. Charges in the sector have risen during eight of the past nine months. However, the latest inflation was only moderate and far milder than the one-and-a-half year high recorded at the start of 2010.

Input Prices Index

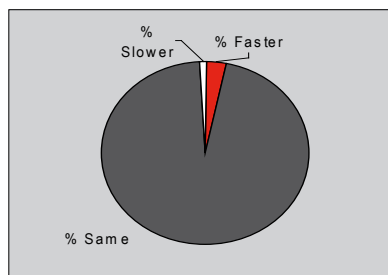
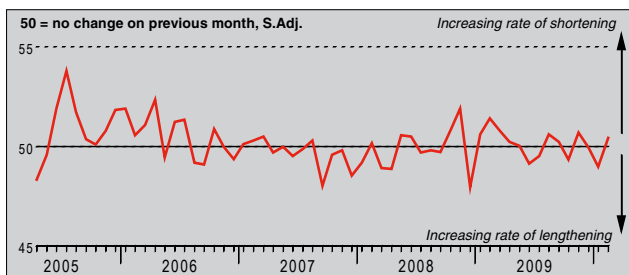
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



The rate of increase in input prices across India's manufacturing economy eased during February from the previous month's series record high. Even so, inflation remained substantial, as more than 26% of survey participants reported a rise in their average cost burdens on the month. Anecdotal evidence suggested that greater fuel and raw material prices underpinned the increase, with higher metal costs also frequently mentioned. Purchasing costs have increased during every survey period since last April.

Suppliers' Delivery Times Index

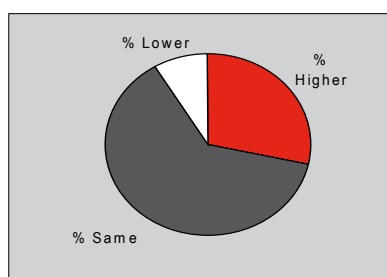
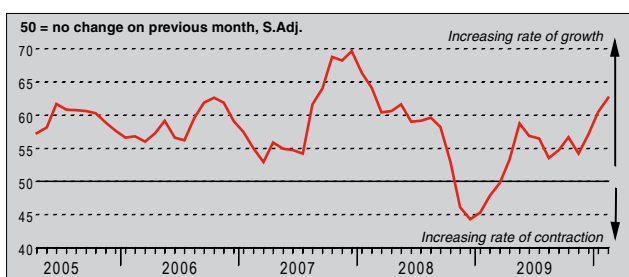
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



As has been the case for the past year, the seasonally adjusted Suppliers' Delivery Times Index registered within one point of the neutral mark of 50.0 in February. With little change in lead times, data suggest that vendors continued to manage rising demand for raw materials from Indian manufacturers relatively well. Where delivery times lengthened, firms linked this to higher new orders for inputs. Conversely, improved supplier performance was largely attributed to efforts to speed up deliveries.

Quantity of Purchases Index

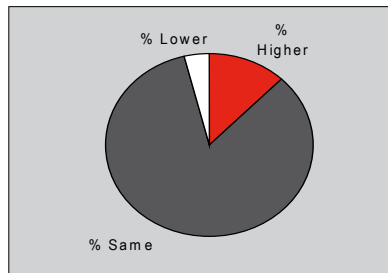
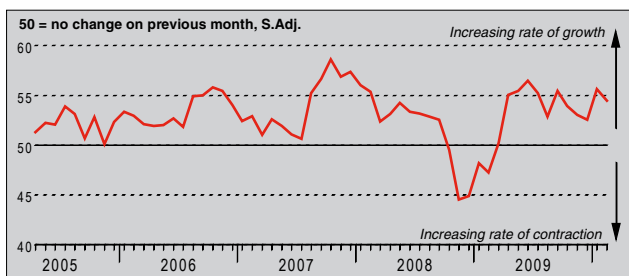
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



With business conditions improving and production demands steadily growing, Indian manufacturers upped their raw material acquisitions during February. Buying activity rose at a substantial pace that was the most marked for two years and above the series pre-downturn average. Approximately 29% of panel members raised the quantity of their input purchases on the month, compared with less than 9% that cut them.

Stocks of Purchases Index

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



Indian manufacturers continued to build up their stocks of purchases over the latest survey period. The two main reasons for this were to meet current and expected future demand, and to ensure the smooth running of the production process. Although February's rise in raw material holdings was weaker than in January, it was nevertheless robust and faster than the series long-run trend. Pre-production stocks have been continuously rising for a year, broadly in line with the trend 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 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.

Warning

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.