HSBC Purchasing Managers' Index Press Release

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compiled by markit

HSBC India Manufacturing PMI

Business conditions continued to strengthen in March, but input cost inflation accelerated to highest in five-year series history

Summary

At 57.8 in March, down from 58.5, the seasonally adjusted HSBC Purchasing Managers' Index™ (PMI™) slipped back slightly from February's twenty-month high. The fall largely reflected weaker expansions of both output and new orders. Nevertheless, the PMI remained at a level consistent with a sharp improvement in overall operating conditions. The index has now registered above the neutral 50.0 mark in each of the past twelve months.

New order growth was recorded for the twelfth month running. Although the rate of expansion eased, it remained substantial and above the series average. Data suggested that the domestic market was still the primary driver of overall gains in new business. However, new export order growth accelerated slightly in March, extending the current period of expansion to ten months. Respondents linked the latest increase in total new work to a combination of improved economic conditions, strong company reputations, successful marketing campaigns and the introduction of new products.

Higher volumes of new business, alongside expectations of strong future client demand, prompted manufacturers to raise their production levels and build inventories in March. Output increased considerably, albeit by a lesser extent than in the previous month. This expansion of production contributed to a slight rise in finished goods stocks, which had been depleted during the first two months of the year. Meanwhile, input buying activity and pre-production inventories both increased at robust rates.

With growth of input purchasing the sharpest for twenty-five months, there were associated reports of capacity pressures at suppliers. Vendor performance deteriorated at the fastest pace since December 2008, with data pointing to a modest lengthening of lead times. Panel members indicated that shortages of raw materials and power cuts at suppliers had contributed to delivery delays.

Total volumes of outstanding business were broadly unchanged on the month in the Indian manufacturing sector in March.

Average cost burdens increased sharply across India's manufacturing economy. Moreover, the rate of input price inflation accelerated to a series record pace. Panel members linked elevated purchasing costs to increased raw material prices, alongside higher taxes. Companies attempted to cover part of their greater cost burdens by raising their tariffs at a marked pace.

Comment

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

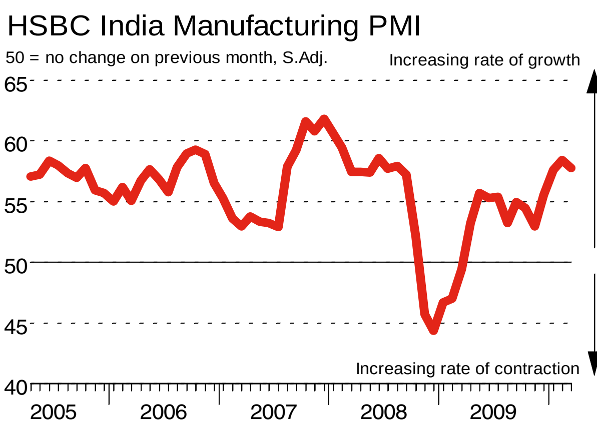
"The most attention-grabbing aspect of the March PMI release was the surge in input prices to a new series high, suggesting that companies are facing sizeable and mounting cost pressures. The survey also indicates that manufacturers are becoming more willing to pass on some of these increases in the form of higher output prices. While the results were no doubt impacted by the one-off duty hikes announced in the budget, the RBI can't afford to ignore the situation, particularly as more respondents are pointing to supply-side capacity pressures. We believe the Central Bank has plenty of catching up to do if it is to deal with the rapid escalation of price risks in the economy.

"On the activity side, both output and overall orders grew a little less rapidly in March, although it was encouraging to see a renewed bounce in export orders. In our view, the biggest danger to Indian economic growth in coming months will be an inability to meet demand due to a lack of capacity rather than a significant softening in demand itself."

Key points

- Sharp growth of production and new orders in March...
- ...but in both cases rates of expansion eased since the previous month.
- Input price inflation reached series record high.

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:

HSBC Holdings plc, the parent company of the HSBC Group, is headquartered in London. The Group serves customers worldwide from around 8,000 properties in 88 countries and territories in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa. With assets of US$2,364 billion at 31 December 2009, HSBC is one of the world's largest banking and financial services organisations. HSBC is marketed worldwide as 'the world's local bank'.

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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.