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HSBC India Manufacturing PMI

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

Key findings:

- 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.

At 57.8 in March, down from 58.5, the seasonally adjusted HSBC Purchasing Managers' Index™ (PMI™) – a headline index designed to measure the overall health of the manufacturing sector – 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 in March. Although the rate of expansion eased since February, 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

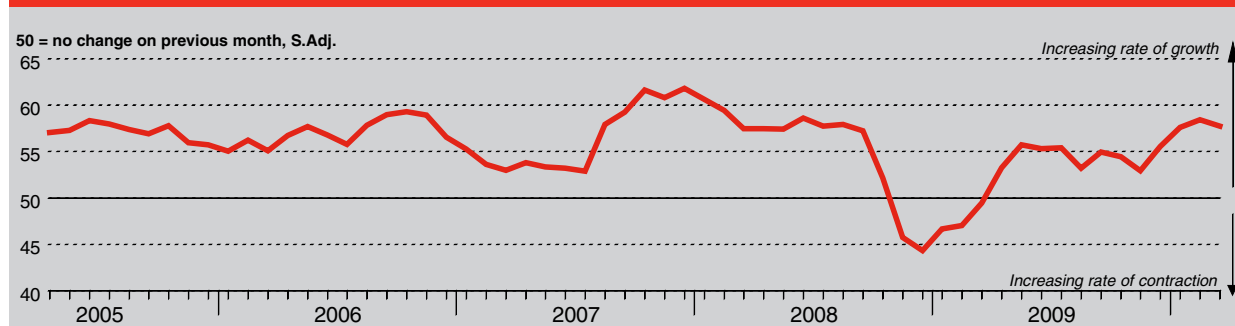
during the first two months of the year. Meanwhile, input buying activity and pre-production inventories both increased at robust rates.

With growth of input purchasing the sharpest for twenty-five months, there were associated reports of capacity pressures at suppliers. Average 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.

March data indicated that overall volumes of outstanding business were broadly unchanged on the month in the Indian manufacturing sector. Where a rise in backlogs was reported, companies generally attributed it to higher levels of incoming new business at their plants.

Average cost burdens increased sharply across India's manufacturing economy in March. Moreover, the rate of input price inflation accelerated to its sharpest since the survey began in April 2005. Panel members linked elevated purchasing costs to increased raw material prices in March, alongside higher taxes. Increased metals prices were mentioned in particular. Companies attempted to cover part of their greater cost burdens by raising their average tariffs at a marked pace. However, the latest round of output charge inflation was less pronounced than January's eighteen-month high.

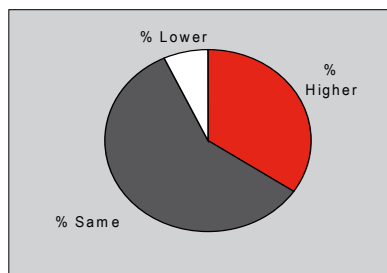
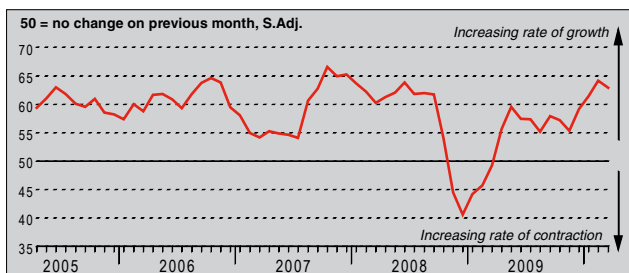
HSBC India Purchasing Managers' Index (PMI™)



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

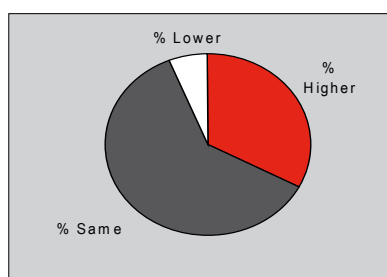
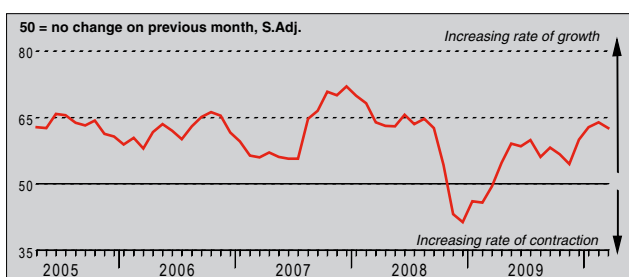
Q. Please compare your production/output this month with the situation one month ago.



March data pointed to another considerable increase in Indian manufacturing production. Although the seasonally adjusted Output Index fell back slightly from February's twenty-six month peak, it remained above the series average. More than one-third of survey participants raised manufacturing activity since the previous month, predominantly attributing this to further new order growth. Stock replenishment was also mentioned by some firms.

New Orders Index

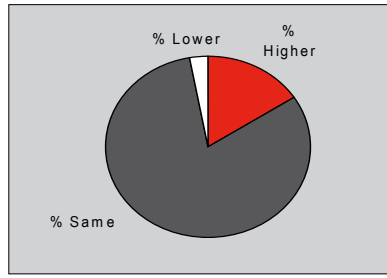
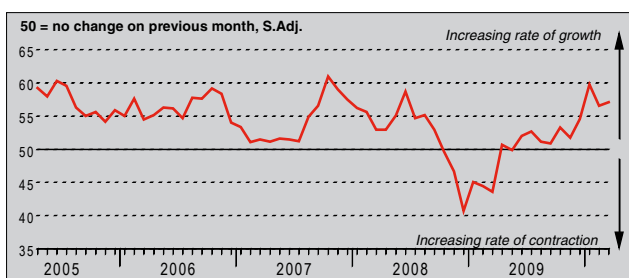
Q. Please compare the level of new orders received (India and export) this month with the situation one month ago.



Overall demand for Indian manufactures rose strongly in March, albeit to a lesser extent than in February. Data suggest that the weakening in the rate of growth stemmed from the domestic market, as new export orders increased at an accelerated pace. Anecdotal evidence suggested that improved economic conditions underpinned the latest expansion in new work. Survey respondents also highlighted new product launches and successful advertising campaigns.

New Export Orders Index

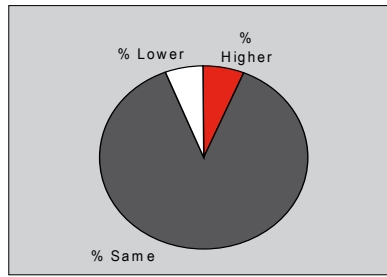
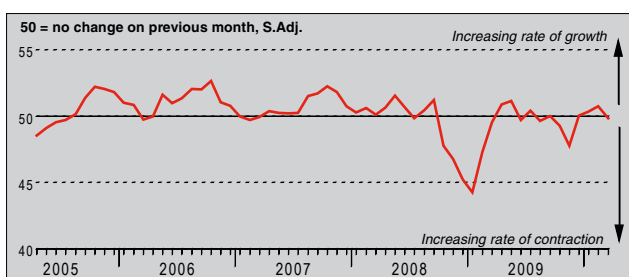
Q. Please compare the level of new export orders received this month with the situation of one month ago.



The seasonally adjusted New Export Orders Index increased in March and signalled the second-strongest rate of expansion since June 2008. The latest figure indicated a substantial increase in receipts of new work from abroad at Indian manufacturers. More favourable global economic conditions, strong reputations for quality and more marketing were listed as the main factors supporting external demand for Indian manufactured goods.

Backlogs of Work Index

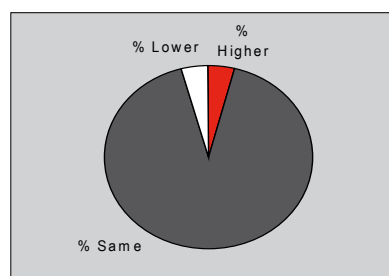
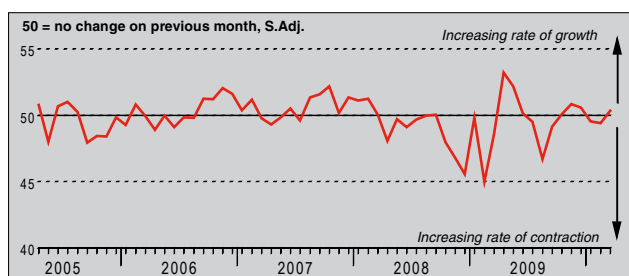
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Despite disruptions and delays caused by power cuts, overall volumes of outstanding business across India's manufacturing economy were largely unchanged during the latest survey period. The vast majority of respondents (around 88%) saw no change in their backlogs of work. This followed three months of modest rises. Companies that recorded a build-up of unfinished business generally linked this to greater workloads. Meanwhile, firms that reported a fall in backlogs primarily commented on deliberate efforts to clear work-in-hand.

Stocks of Finished Goods Index

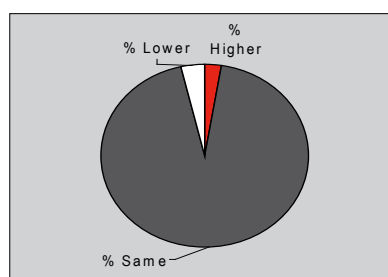
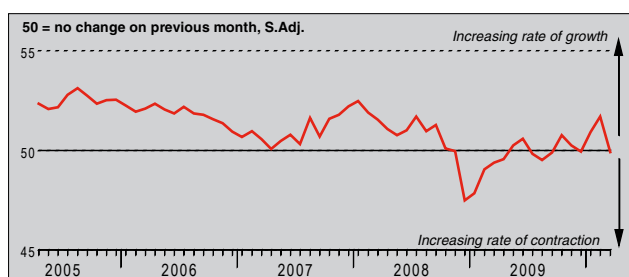
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Finished goods holdings at Indian manufacturing plants accumulated during March for the first time in three months. Restocking policies were the main reasons for the build-up, according to panel members. Although the pace of accumulation was only mild, with higher sales levels preventing faster growth, it was more marked than the long-term series average. Post-production inventories have now risen in four of the past six months.

Employment Index

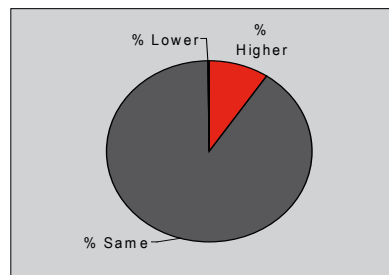
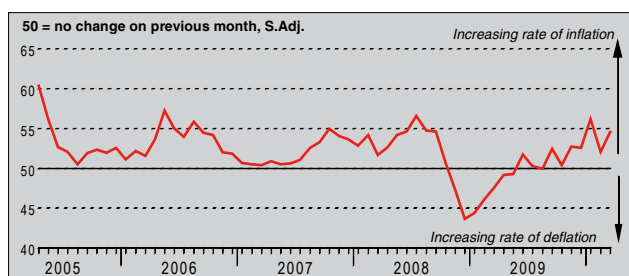
Q. Please compare the level of employment at your unit with the situation one month ago.



The seasonally adjusted Employment Index registered below the no-change threshold of 50.0 in March, reversing the upward trend seen in the first two months of 2010. That said, the index posted only just beneath the neutral level, suggesting that staffing volumes at Indian manufacturers were broadly similar to those recorded in February. Companies that released personnel cited rising cost pressures, while firms that hired additional workers did so mainly to cope with greater production requirements.

Output Prices Index

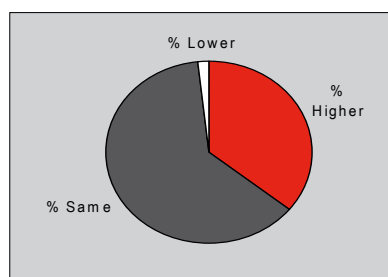
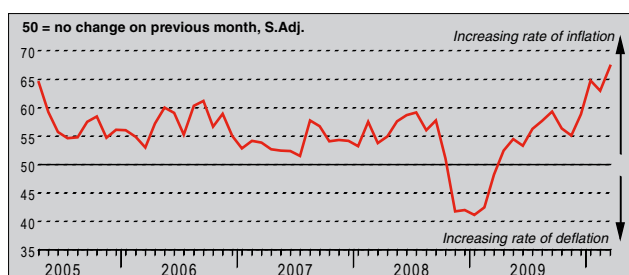
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Indian manufacturers raised their charges again in March. Output charge inflation accelerated since February to a robust pace, although it remained less marked than that recorded in January. Factory gate prices in the sector have now risen in nine of the past ten months. Respondents indicated that tariffs were increased mainly in order to compensate for higher input costs, although greater excise duties were also commented on by some companies.

Input Prices Index

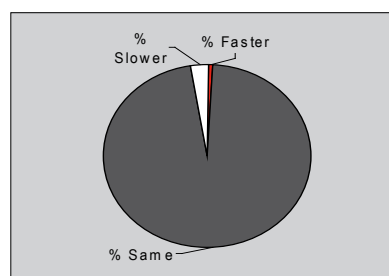
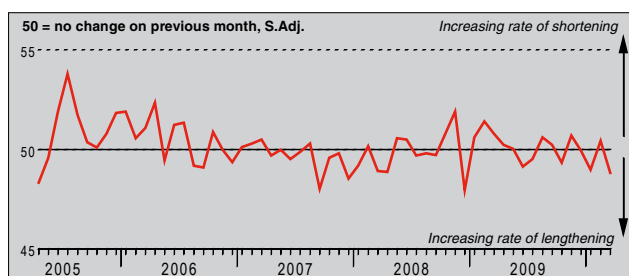
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Greater raw material costs were perceived by Indian manufacturers as the key drivers of overall input cost inflation in March. However, some panellists also mentioned that higher taxes had contributed to the rise in their average cost burdens. After accounting for seasonal variations, the Input Prices Index jumped to a series record high, signalling a considerable increase in purchasing costs. Firms have reported rising input prices during each of the past twelve months.

Suppliers' Delivery Times Index

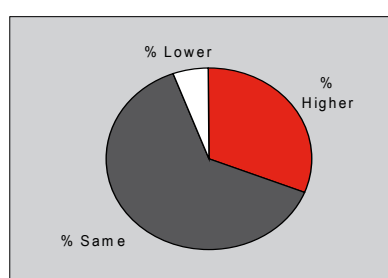
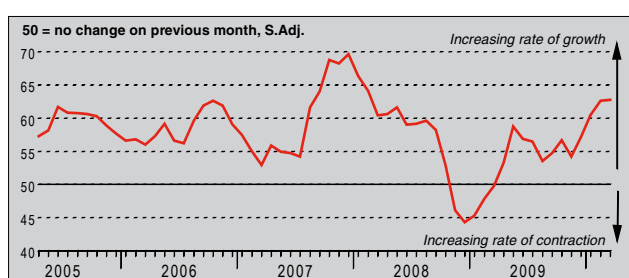
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Indian manufacturers signalled an increase in delivery times from suppliers for the third time in the past four months. Manufacturers generally commented that shortages of raw materials and power cuts at suppliers had adversely impacted upon vendor performance. Although delivery times lengthened at only a modest rate, March data signalled the fastest deterioration in average vendor performance since December 2008.

Quantity of Purchases Index

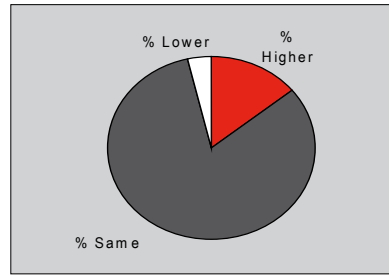
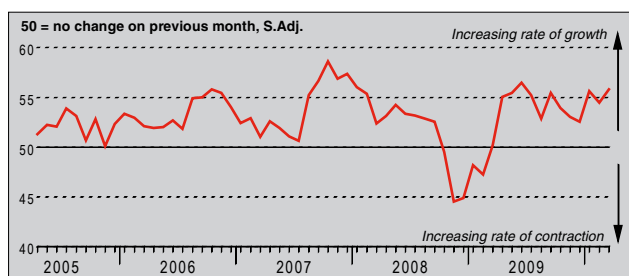
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



March data marked twelve months of continuous input purchasing growth across India's manufacturing economy. The pace of increase remained sharp and was the most marked since February 2008. Over 31% of the survey panel raised the quantity of their purchases since February, compared with less than 6% that trimmed their input buying. Reports from panel members indicated that firms bought additional raw materials both to meet current production requirements and to build buffer stocks.

Stocks of Purchases Index

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



Latest data showed that Indian manufacturers increased their pre-production holdings at an accelerated pace during March. The rate of growth was the fastest for nine months, with over 14% of monitored companies reporting a rise. Anecdotal evidence indicated that input stocks were accumulated in response to an improved economic climate. Some firms also noted that expectations of higher demand from clients contributed to increased stocks of purchases.

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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