

HSBC India Manufacturing PMI

PMI continued to signal considerable improvement in Indian manufacturing sector business conditions

Summary

The seasonally adjusted HSBC Purchasing Managers' Index™ (PMI™) – a headline index designed to measure the overall health of the manufacturing sector – was down slightly in April to 57.2, from 57.8 in March. Although this slip indicates that operating conditions improved at a weaker rate during the latest survey period, the latest reading still signalled a considerable strengthening in the health of the industry.

The fall in the PMI reflected slower expansions in both output and new orders. Nevertheless, the indices tracking trends in these two variables remained at levels consistent with sharp rates of growth. Respondents stated that demand for Indian manufactures was supported by better global economic conditions, successful promotional activities and good business reputations. Although new export work continued to rise at a marked pace, data showed that the domestic market remained the primary driver of total new order growth.

Partly as a result of further new order gains, but also due to power cuts and input delivery delays, outstanding business at Indian manufacturers rose solidly in April. It was the fourth increase in five months and a new series record.

To ease capacity pressures and accommodate higher production requirements, manufacturers hired more staff and built up input stocks in April. Job creation was moderate and only slightly weaker than the nineteen-month high recorded in February. Meanwhile, another substantial rise in buying activity enabled firms to expand their raw material holdings at a marked and accelerated pace.

Greater demand for inputs from Indian manufacturers placed additional pressure on vendors in April. Consequently, lead times lengthened for the second month running. That said, the rate of deterioration was only moderate and little-changed since March. Reports suggested that power cuts and short supplies of certain commodities also contributed to delivery delays.

Manufacturers reported another rise in their average purchasing costs in April. Input price inflation was rapid and above the pre-crisis trend, despite easing from March's series record high. Panellists linked the latest increase to greater fuel and raw material prices, making particular reference to the elevated costs of metals, timber and cotton.

Prices charged for Indian manufactures rose at a marked pace during April, as firms responded to further growth in their cost burdens in an attempt to defend profit margins.

Comment

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

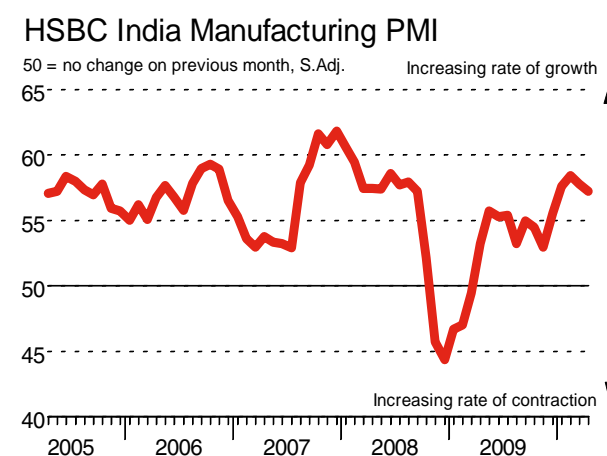
"India's manufacturing PMI fell back for a second consecutive month in April but, at 57.2, remained consistent with double-digit year-on-year growth in the industrial sector. Both new orders and output indices were above 60 and employment showed modest gains.

"Of more interest, however, are the series relating to prices and capacity issues. Input prices showed a slightly smaller rise in April than March, although it was still the second highest increase since the PMI began five years ago. Meanwhile, output prices registered their strongest increase for three months as backlogs of work jumped to an all time high. The latter further supports the argument that demand is growing more strongly than supply, giving companies the confidence to push through price rises. In our view, India is in for a protracted period of rate hikes, the extent of which will surprise most forecasters."

Key points

- New order and output growth both slowed further, but remained sharp.
- Employment rose at moderate pace.
- Input price inflation moderated from March's series record high, while charge inflation accelerated.

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.

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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.

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