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HSBC India Manufacturing PMI

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

Key findings:

- 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.

Business conditions across India's manufacturing economy remained favourable at the start of Q2 2010, with both domestic and foreign demand for the sector's products continuing to grow. The benefits of a better operating environment were also felt in the labour market, as employment at Indian manufacturers expanded following a fractional decline in the previous month. However, there was further evidence of building cost pressures; although input price inflation moderated from March's peak, it remained sharp. Meanwhile, charges rose at an accelerated pace.

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.

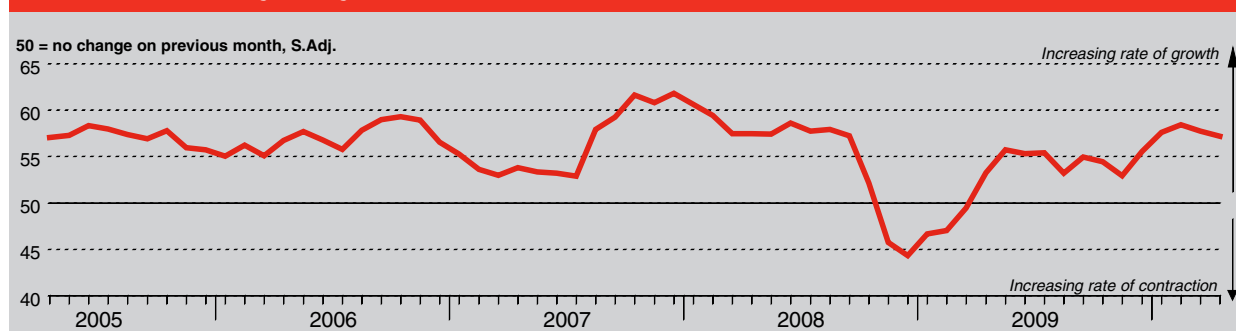
To ease capacity pressures and accommodate higher production requirements, manufacturers hired more staff and built up input stocks in April. Job creation was moderate and only slightly weaker than the nineteen-month high recorded in February. Meanwhile, another substantial rise in buying activity enabled 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.

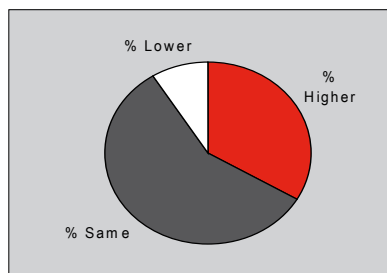
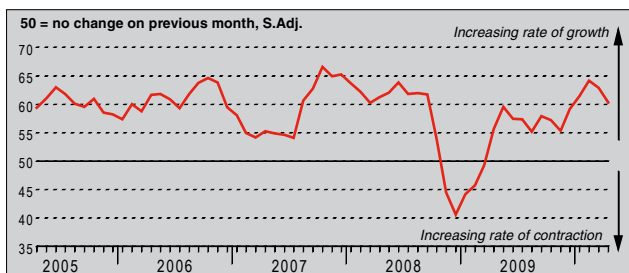
HSBC India Purchasing Managers' Index (PMI™)



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

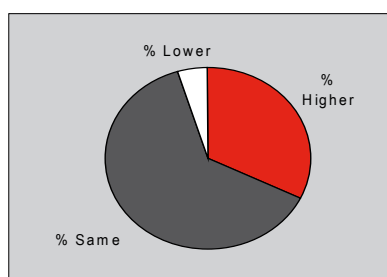
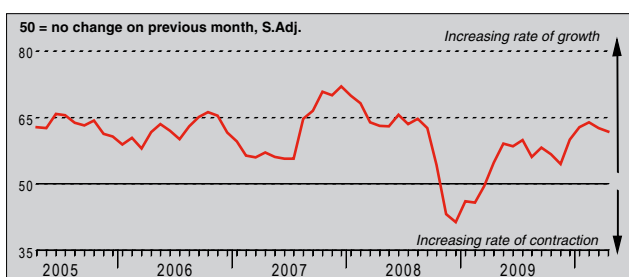
Q. Please compare your production/output this month with the situation one month ago.



Indian manufacturing output growth continued to slow at the start of the second quarter of 2010. Nevertheless, production levels expanded at a substantial pace that was in line with the pre-downturn trend. Over one-third of the survey panel raised activity during April, citing favourable demand conditions and further gains in new business. Companies in the industry have now reported increases in production for thirteen successive months.

New Orders Index

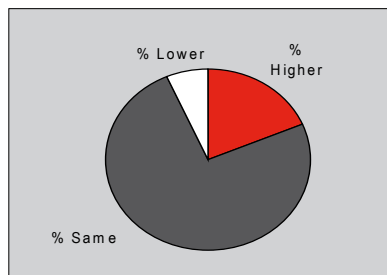
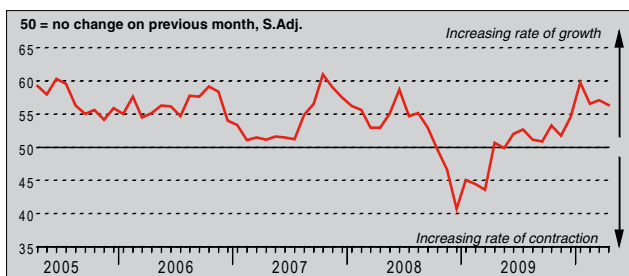
Q. Please compare the level of new orders received (India and export) this month with the situation one month ago.



Panelists recorded another rise in incoming new business in April. The seasonally adjusted New Orders Index pointed to another sharp rate of expansion, although the latest reading was the lowest since December last year. Anecdotal evidence suggested that improved economic conditions, marketing activities and strong reputations for quality had supported demand for Indian manufactures. Data indicated that domestic demand remained the greatest contributor to new order growth.

New Export Orders Index

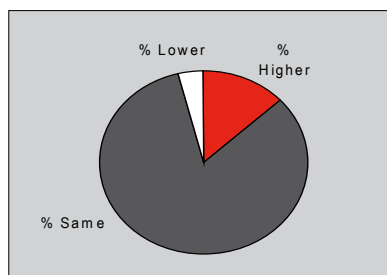
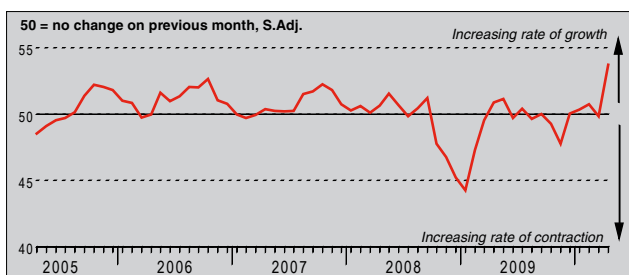
Q. Please compare the level of new export orders received this month with the situation of one month ago.



Foreign demand for Indian manufactures grew during the latest survey period, as indicated by a further marked rise in new export orders. Respondents stated that better worldwide operating conditions, good company reputations and promotional activities had enabled them to compete effectively on international markets. Although April's increase in new work from abroad was the weakest for four months, it was nevertheless stronger than the series' pre-crisis trend.

Backlogs of Work Index

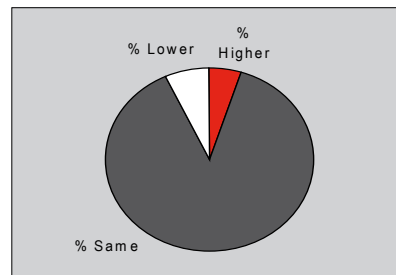
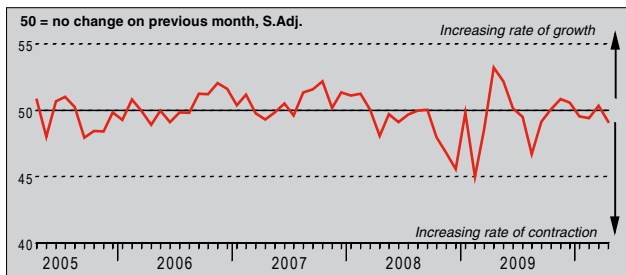
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Indian manufacturers reported an accumulation of outstanding business in April. It was the fourth increase in five months and the fastest since data collection began in April 2005. Over 13% of monitored companies indicated that backlogs had built up since March, attributing this to a combination of higher new order numbers, power cuts and longer delivery times. In contrast, less than 4% of respondents saw work-in-hand fall over the month.

Stocks of Finished Goods Index

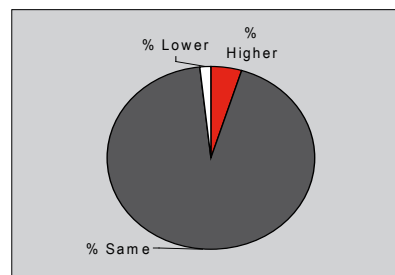
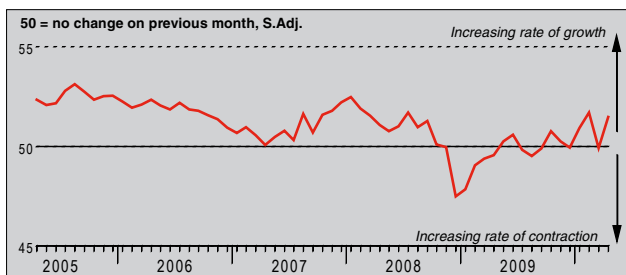
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Indian manufacturers ran down their finished goods inventories during April, in order to accommodate higher-than-anticipated sales levels. Consequently, finished goods stocks contracted for the third time in four months, albeit only slightly. The vast majority (88%) of survey participants noted no difference in post-production holdings since March. Reports suggested that hold-ups in the production process had also contributed to the decline in stocks.

Employment Index

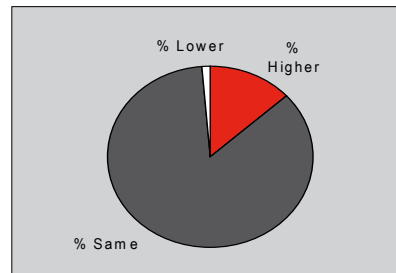
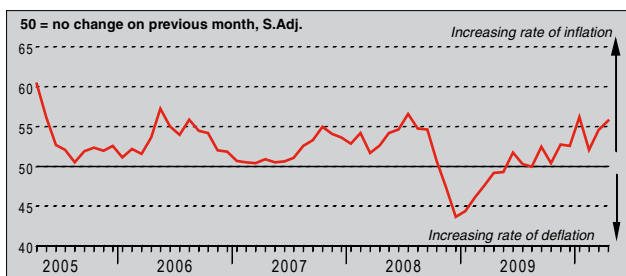
Q. Please compare the level of employment at your unit with the situation one month ago.



Latest data pointed to a moderate pace of job creation across India's manufacturing industry in April. This followed a fractional contraction in staffing numbers during the previous survey period. Firms cited greater production requirements and a better economic environment as the key factors behind decisions to hire additional workers. Data showed that employment growth was slightly faster than the series long-run average.

Output Prices Index

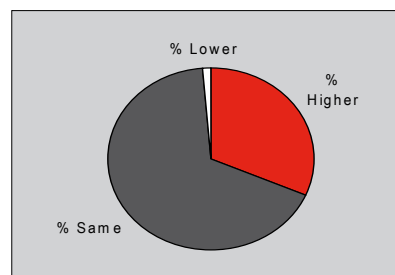
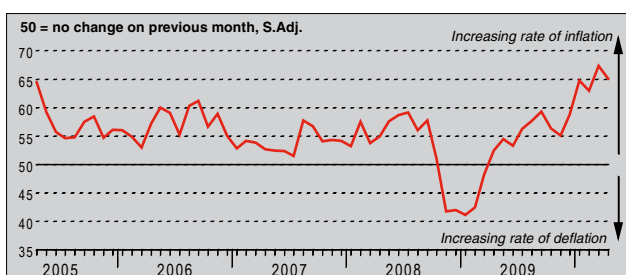
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



To compensate for rising input costs, Indian manufacturers upped their charges during April. Moreover, the pace of output price inflation accelerated to a three-month high, with over 13% of companies raising their tariffs since March. In contrast, less than 2% of firms cut their rates. Charges in the sector have now increased for eight months in succession. The latest rise was marked and comfortably above the pre-downturn trend for the series.

Input Prices Index

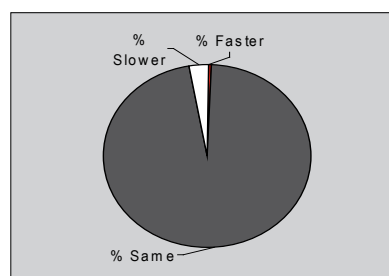
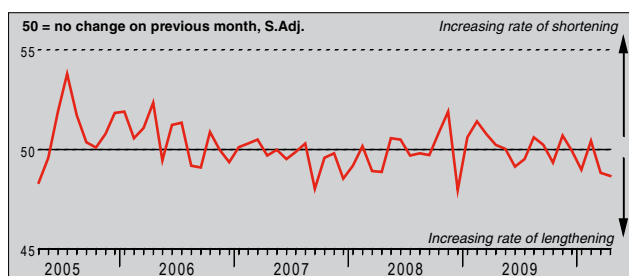
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Input prices faced by Indian manufacturers continued to rise at the start of Q2. Companies commented on greater fuel and raw material costs, which partly reflected the short supply of some commodities. Higher prices for metals, timber and cotton were particularly mentioned. Input price inflation has been recorded during every survey period since April 2009, following a five-month sequence of decline. However, the pace of increase moderated from March's survey record high.

Suppliers' Delivery Times Index

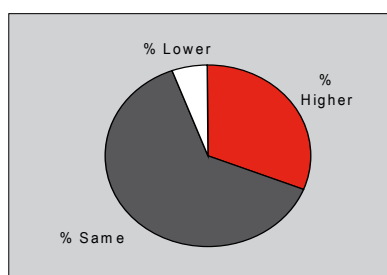
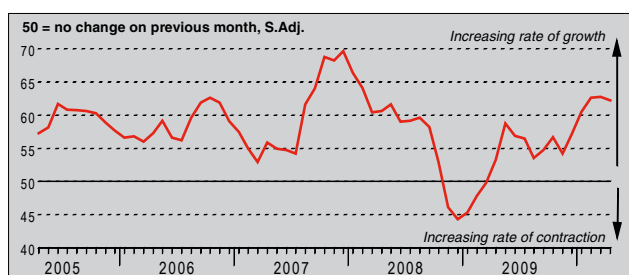
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Lead times on input deliveries to Indian manufacturers continued to lengthen at a modest pace during the latest survey period. The latest increase was the fifth in seven months and the fastest since December 2008. Anecdotal evidence suggested that a combination of factors underpinned April's deterioration in vendor performance; stronger demand for raw materials, shortages of certain commodities and continued power cuts.

Quantity of Purchases Index

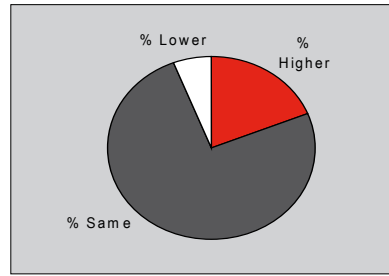
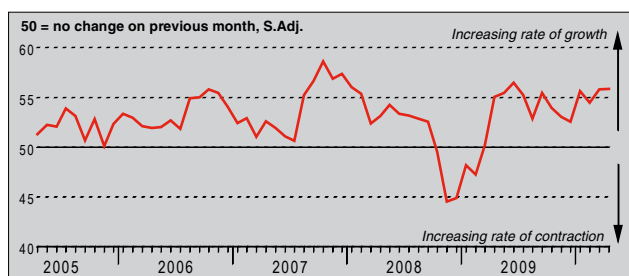
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Indian manufacturers acquired additional inputs in April, as demand for their goods grew further and production levels increased. Reports indicated that the rebuilding of raw material stocks was also a key factor. Although down slightly on March's reading, the seasonally adjusted Quantity of Purchases Index remained at a level consistent with a sharp increase in buying activity. Manufacturers have now raised purchasing for thirteen straight months, in line with the trend in new orders.

Stocks of Purchases Index

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



After accounting for seasonal variation, the Stocks of Purchases Index was virtually unmoved in April from its position during the previous month. The latest reading pointed to another marked rise in raw material holdings at Indian manufacturing units. The rate of accumulation was also faster than that recorded over the same period last year and above the pre-crisis trend. Panellists stated that inventories expanded on the back of further growth in buying activity.

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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