

HSBC India Manufacturing PMI

PMI rose to twenty-seven month high in May, pointing to sharp improvement in business conditions

Summary

The seasonally adjusted HSBC Purchasing Managers' Index™ (PMI™) climbed to its highest level since February 2008 in May. At 59.0, up from 57.2 in April, the index pointed to a considerable improvement in operating conditions faced by Indian manufacturers. The PMI has registered above its long-term trend of 55.9 since January.

Production at Indian manufacturers rose sharply and for the fourteenth consecutive month in May. Reports indicated that activity levels were raised in response to further gains in new business. Incoming new work expanded at a substantial pace on the month, which companies linked to favourable economic conditions, strong market demand (from both public and private sectors) and good business reputations. Data revealed that the domestic market remained the primary driver of overall new order growth, as the rise in new work from abroad weakened. Nevertheless, receipts of new export orders continued to increase at a robust pace.

Outstanding business accumulated at an accelerated pace during the latest survey period. The robust increase reflected further growth of new work and delays caused by longer supplier delivery times. To meet sales levels and honour delivery agreements, manufacturers depleted existing stocks of finished goods. Although lead times on raw material deliveries lengthened only moderately in May, the rise was nevertheless a series record. Panel members cited greater demand for inputs, shortages of certain commodities and power cuts as the primary reasons for the latest deterioration in vendor performance.

To accommodate higher production requirements and company expansions, Indian manufacturers hired extra staff and added to pre-production stocks in May. Job creation was modest and the most marked since August 2005. Meanwhile, buying activity rose sharply, resulting in a survey record increase in raw material holdings.

Both input and output price inflation abated somewhat since April. Nonetheless, both measures remained firmly above their long-term series trends. Purchasing costs increased at a rapid pace, which respondents linked to greater raw material prices, especially for metals. Manufacturers passed through part of the input price inflation to customers by way of higher charges, which rose markedly and for the ninth month in succession.

Comment

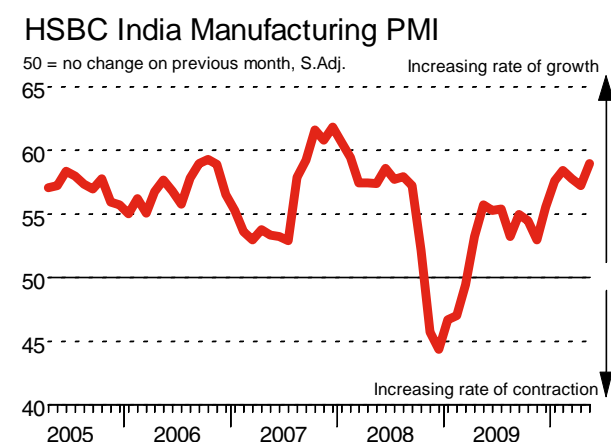
Commenting on the India Manufacturing PMI survey, Frederic Neumann, Co-Head of Asian Economics Research at HSBC said:

"The Indian economy is hardly pausing for breath. Output growth remains at a robust pace and new orders continue to pour in. This is benefiting the job market as more and more firms are hiring, ultimately helping to support the boom in consumption in the local economy. Price pressures remain elevated and are of concern. However, the recent readings point to a stabilization of price pressures, with both the input and the output price indices easing back a little in May. This signals the need for further monetary tightening, although the cooling of new export orders, mirroring a possible slowdown in the global trade cycle, may help the authorities a little in containing price pressures further."

Key points

- Output, new order and employment growth all accelerated.
- Inflationary pressures moderated, but remained strong by historical standards.
- Vendor performance deteriorated at series record rate.

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.

Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact economics@markit.com.

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About PMIs:

Now available for 26 countries and key regions including the Eurozone and BRIC, Purchasing Managers' Indexes (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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