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HSBC India Manufacturing PMI

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

Key findings:

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

India's manufacturing economy continued to expand during May, with output, new orders and employment all growing at accelerated rates. Consequently, firms continued adding to their raw material stocks. However, stronger demand and pipeline delays resulted in the fastest accumulation of backlogs in the series history, leading firms to deplete finished goods holdings to meet contractual obligations. Meanwhile, inflationary pressures remained historically strong, despite easing since April.

The seasonally adjusted HSBC Purchasing Managers' Index™ (PMI™) – a headline index designed to measure the overall health of the manufacturing sector – 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

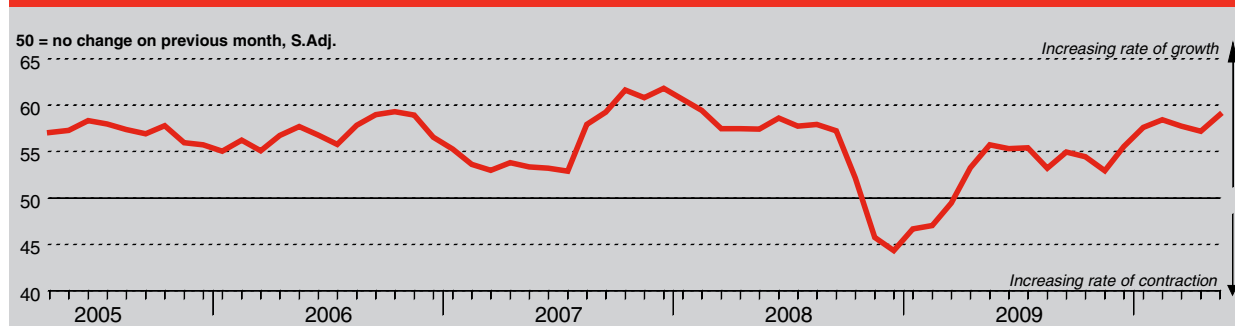
increase at a robust pace.

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.

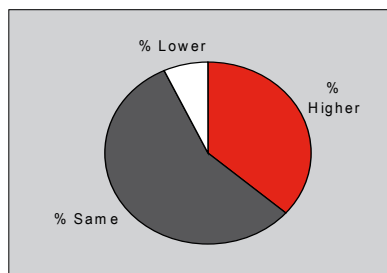
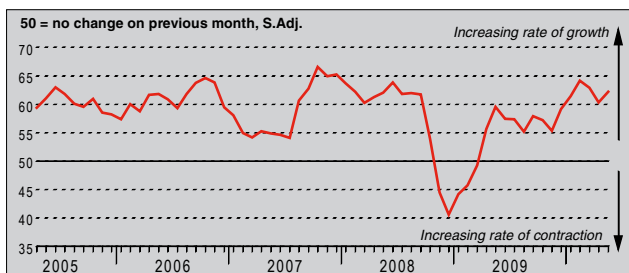
HSBC India Purchasing Managers' Index (PMI™)



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

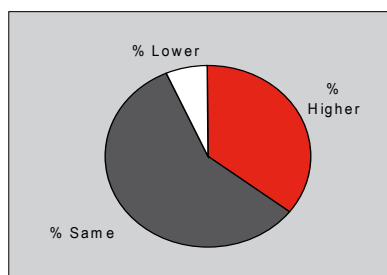
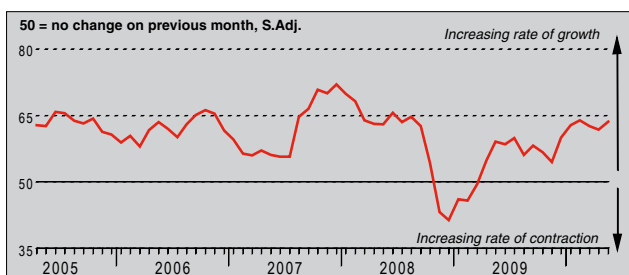
Q. Please compare your production/output this month with the situation one month ago.



Indian manufacturing production rose at a considerable pace during the latest survey period. Moreover, the rate of expansion accelerated since April, with over 36% of panellists noting growth. Panel members linked increased activity levels to further new order gains and better market conditions. Nevertheless, the latest seasonally adjusted Output Index reading remained below the twenty-six month high recorded in February.

New Orders Index

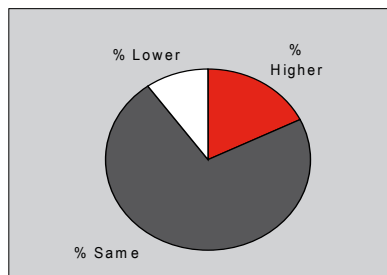
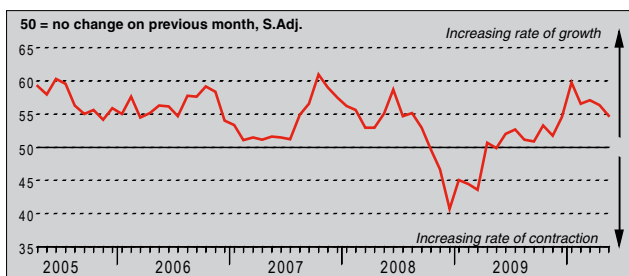
Q. Please compare the level of new orders received (India and export) this month with the situation one month ago.



New work received by Indian manufacturers expanded for the fourteenth month running in May, and at the fastest rate since February. Approximately 36% of companies registered an increase, citing improved economic conditions, strong market demand (from both public and private sectors) and good business reputations. Data indicated that the uptick in total new order growth primarily stemmed from the domestic market, as new export work rose at a slower rate in May.

New Export Orders Index

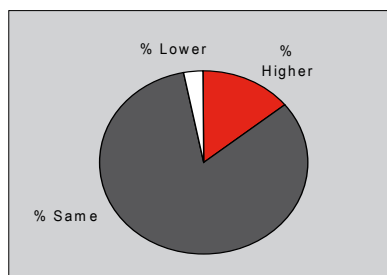
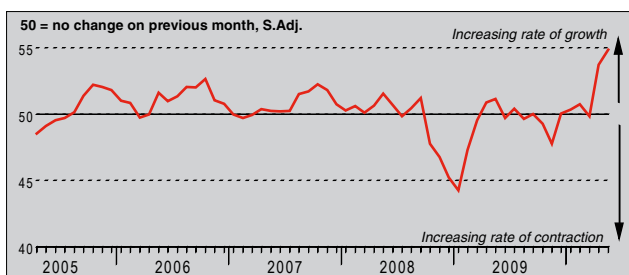
Q. Please compare the level of new export orders received this month with the situation of one month ago.



May marked one year of continuous new export order growth in the Indian manufacturing sector. Although the mildest for five months, the latest increase was nonetheless robust and above the long-term series trend. Around 18% of firms recorded a rise in new business from abroad, against one-tenth that posted a contraction. Respondents stated that better global economic conditions, alongside successful product improvement and development, had supported foreign demand.

Backlogs of Work Index

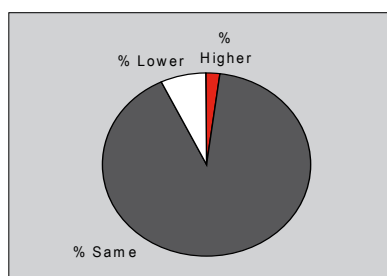
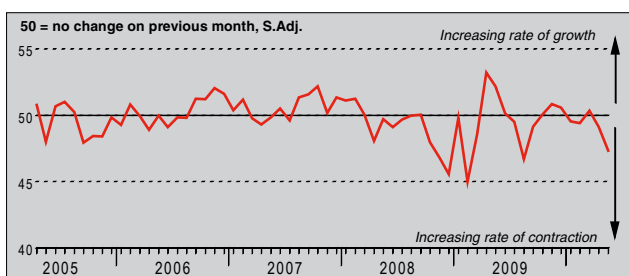
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Greater workloads was the main reason for a rise in outstanding business at Indian manufacturing plants during May, although numerous panellists also commented on pipeline delays caused by suppliers. Work-in-hand accumulated for the second straight month and was the most pronounced in the survey history. The marked increase contrasted with the tepid average growth recorded in the first quarter of the year.

Stocks of Finished Goods Index

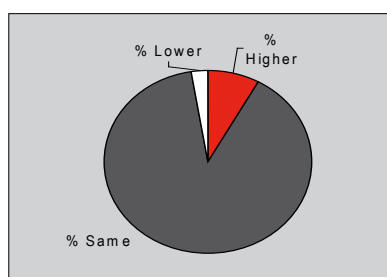
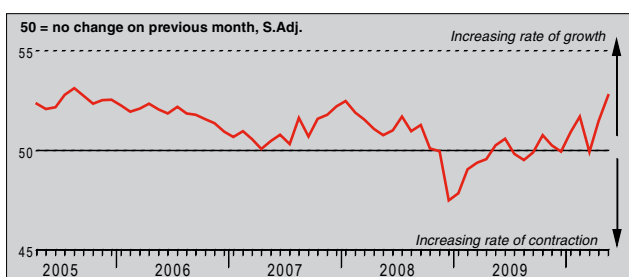
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Indian manufacturers noted a faster reduction in their finished goods stocks in May. Post-production inventories fell at a moderate rate that was both the strongest since August last year and faster than the series average. Respondents stated that higher-than-expected sales levels and efficient goods dispatch were the key factors behind the latest decrease in stocks. Holdings have been depleted in four of the past five months.

Employment Index

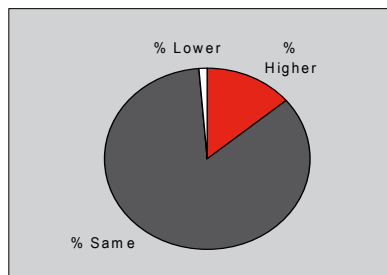
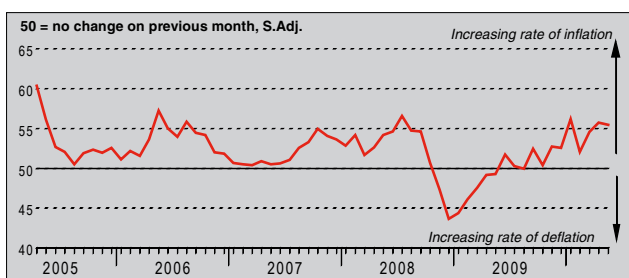
Q. Please compare the level of employment at your unit with the situation one month ago.



The seasonally adjusted Employment Index posted its highest reading since August 2005 in May, signalling a moderate pace of job creation across the Indian manufacturing economy. The latest rise in staffing was the second in succession, following a fractional decrease at the end of Q1. Exactly 8% of panel members hired additional workers on the month, linking this to greater new order levels and business expansions. In contrast, less than 3% trimmed personnel numbers.

Output Prices Index

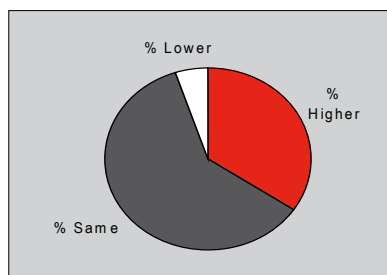
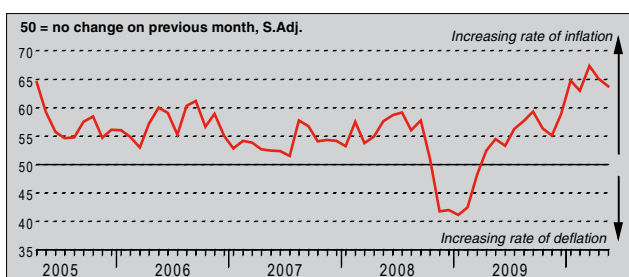
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Primarily to pass on input cost inflation to customers, but also to take advantage of favourable demand conditions, Indian manufacturers raised their charges during the latest survey period. Data showed that the increase was marked and only fractionally weaker than in April, with around 14% of companies upping their tariffs. Output prices in the sector have risen during eleven months of the past year, with inflation above the pre-crisis trend in throughout much of 2010.

Input Prices Index

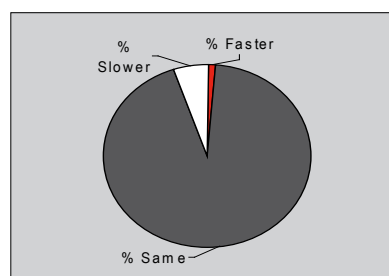
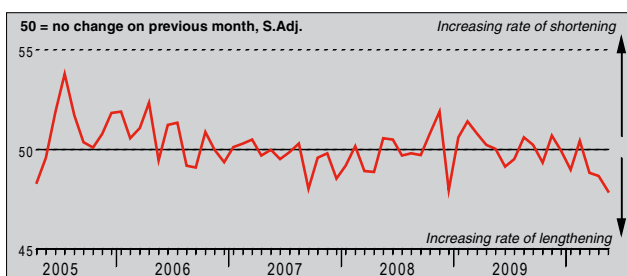
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Input price inflation across India's manufacturing industry abated for the second month running in May, but remained rapid and well above the long-term trend. Greater raw material costs was the primary driver of inflation, according to panel members. Higher metals prices were particularly mentioned by several firms. Purchasing costs in the sector have risen during every month since April 2009, following a five-month period of decline.

Suppliers' Delivery Times Index

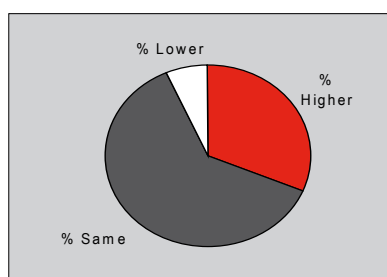
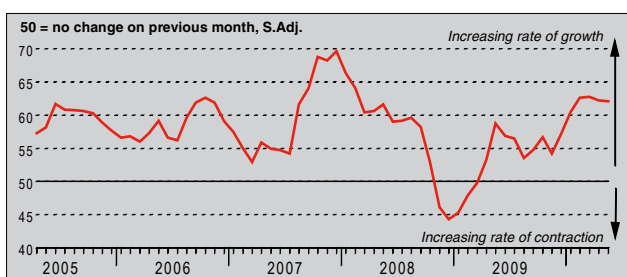
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Survey participants noted further supplier delivery delays in May. It was the fifth deterioration in vendor performance reported in six months, and the fastest in the series history. Panellists stated that greater demand for inputs, shortages of certain raw materials and power cuts had all contributed to the latest lengthening of lead times. Nevertheless, with the majority of companies (over 93%) seeing no change in delivery times, the increase in delivery times was only moderate.

Quantity of Purchases Index

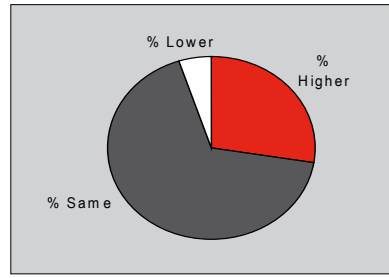
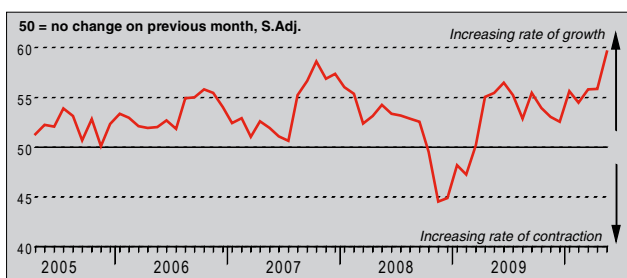
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



To meet higher current and anticipated production requirements, Indian manufacturers acquired more inputs in May. Buying activity rose sharply and at a similar rate to those recorded in the previous three survey periods, as indicated by a sideways movement in the seasonally adjusted Quantity of Purchases Index. Manufacturers have now bought additional raw materials for fourteen successive months, following a five-month sequence of decline.

Stocks of Purchases Index

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



Growth of raw material inventories at Indian manufacturing plants picked up noticeably in May, as shown by a near-four point rise in the seasonally adjusted Stocks of Purchases Index. The latest reading indicated a sharp rise in input holdings that was the most pronounced in the series' sixty-two month history. Around 28% of monitored companies reported higher stocks, commenting on increased buying activity and favourable business conditions.

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 around 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' DeliveryTimes - 0.15, Stock of Items Purchased - 0.1, with the DeliveryTimes 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.

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