HSBC Purchasing Managers' Index Press Release

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compiled by markit

HSBC India Manufacturing PMI

Input price pressures eased sharply in June, leading to weaker rise in charges. Output growth remained above-trend

Summary

After hitting a twenty-seven month peak of 59.0 in May, the seasonally adjusted HSBC Purchasing Managers' Index™ (PMI™) – a headline index designed to measure the overall health of the manufacturing sector – slipped to 57.3 in June. Nevertheless, the latest reading remained above the series average to signal another marked improvement in the health of the industry. The PMI has now signalled expansion for fifteen successive months.

Indian manufacturers sharply raised production during June, primarily in order to accommodate a similarly considerable increase in new business. Reports suggested that favourable economic conditions and good company reputations had supported demand. Although new export order growth accelerated since May, the expansion of total new work remained much more pronounced.

As workloads increased in June, so did volumes of outstanding business. Backlogs of work accumulated markedly, which panel members also linked to delays caused by power cuts. Despite a faster build up of unfinished work, manufacturers did not add to payrolls during the latest survey period. Overall employment levels were unchanged, with the vast majority of companies (approximately 96%) maintaining staffing numbers on the month.

Input acquisitions made by Indian manufacturers rose for the fifteenth month running in June, and at a substantial rate. Respondents stated that higher buying activity reflected greater workloads and efforts to rebuild pre-production inventories. Consequently, stocks of purchases grew markedly, albeit more slowly than in May.

Stronger demand for inputs led to another deterioration in average vendor performance at the end of Q2. Lead times on input deliveries to Indian manufacturers lengthened modestly, but to a lesser degree than in the previous month.

Inflationary pressures moderated in June – sharply in the case of input prices (the respective index dropped by over ten points since May). As a result, purchasing costs rose at the mildest pace for a year. In the 15% of cases where input prices increased, panellists mentioned higher raw material and fuel costs. The slowdown in charge inflation, which reflected the more subdued rise in input costs, was less pronounced. Factory gate prices rose modestly and at the weakest rate since February.

Comment

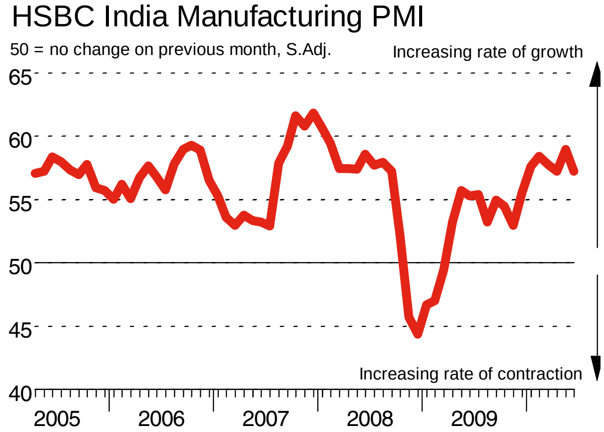
Commenting on the India Manufacturing PMI survey, Frederic Neumann, Co-Head of Asian Economics Research at HSBC said:

"India's economy is stepping back a little, with output growth easing into June. Notably, the pace of hiring has slowed among manufacturing firms as the total new order flow begins to cool. This, too, reduces price pressures a little, with both the input and the output components signalling decelerating inflation. Overall, however, both activity and price components are easing from very elevated levels, suggesting that it is too early to worry about growth and let down our guard on underlying price trends."

Key points

- Output and total new orders increased considerably, but at slightly weaker rates.
- New export business rose at accelerated pace.
- Employment stagnated.

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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