HSBC Purchasing Managers' Index 2010

compiled by markit

Embargoed until: 10:30 (MUMBAI), 1 July 2010

HSBC India Manufacturing PMI

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

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

Underlying demand for Indian manufactures remained high in June, leading to above-trend rises in both new orders and output. However, despite a series-record build-up of backlogs, employment stagnated after two months of moderate expansion.

The most prominent aspect of the latest HSBC India Manufacturing PMI Report was a very noticeable slowdown in input price inflation, and a related weakening in charge inflation. Anecdotal evidence and survey data suggested that this moderation in the growth of input costs stemmed from competition amongst suppliers, rather than a significant dip in demand for raw materials and semi-finished goods (buying activity continued to increase sharply).

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.

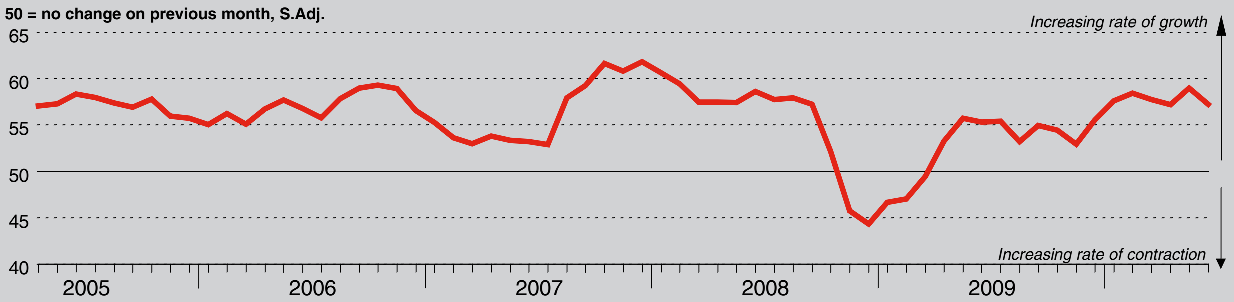
As workloads increased in June, so did volumes of outstanding business. Backlogs of work accumulated markedly, which panel members also linked to delays caused by power cuts. Despite a faster build up of unfinished work, manufacturers did not add to payrolls during the latest survey period. Overall employment 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.

HSBC India Purchasing Managers' Index (PMI™)



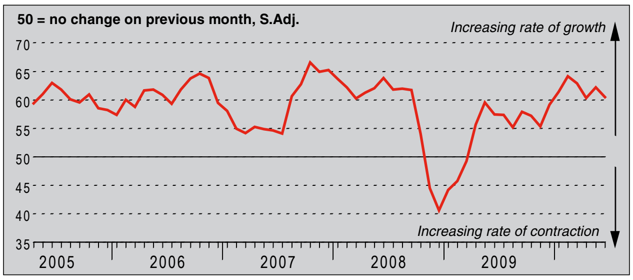
The HSBC India Purchasing Managers' Index (PMI) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, 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.

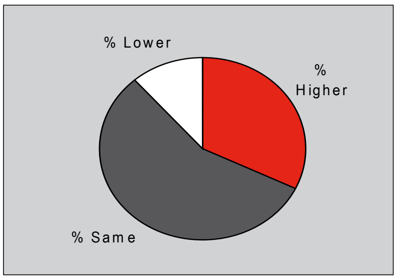
markit

HSBC
The world's local bank

Output Index

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

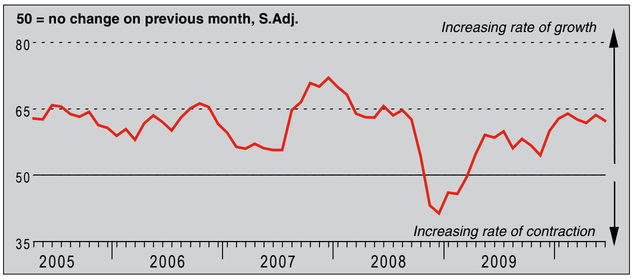


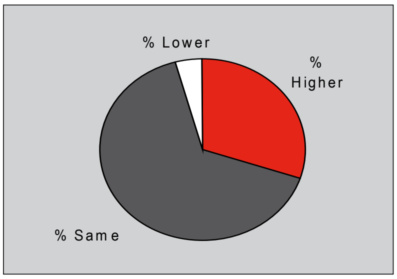


Output expanded at a substantial pace across India's manufacturing economy during the final month of Q2, despite slowing since May. Just under one-third of companies raised production in June, citing more new business as the key impetus to growth. Manufacturing activity has now risen for fifteen consecutive survey periods.

New Orders Index

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

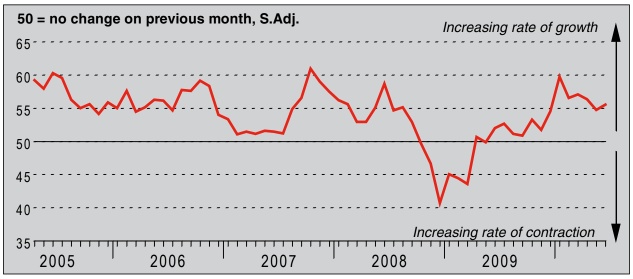


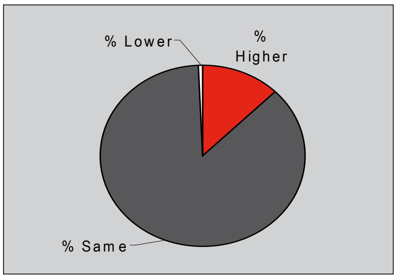


Although new business growth at Indian manufacturers moderated slightly in June, data showed that underlying demand continued to strengthen. This was highlighted by the seasonally adjusted New Orders Index, which remained above the series trend and signalled another sharp increase in new work. Panel members indicated that improved economic conditions and good business reputations had supported the expansion.

New Export Orders Index

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

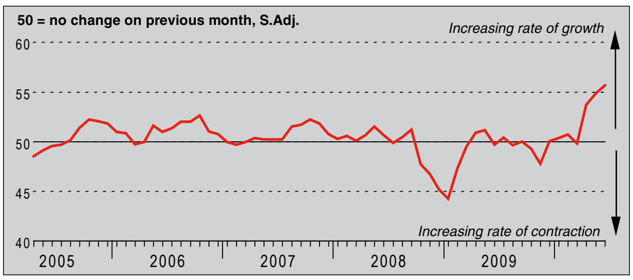


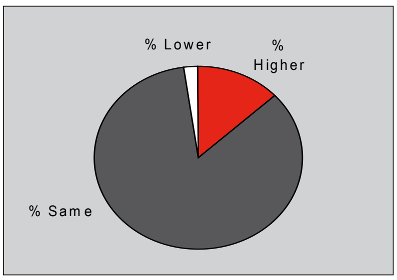


New export work taken by Indian manufacturers grew at an accelerated rate in June, although data indicated that the increase remained weaker than the corresponding rise in domestic new orders. Respondents attributed higher foreign demand to favourable business conditions and strong company reputations abroad. Nevertheless, the pace of expansion remained milder than those recorded in the first four months of the year.

Backlogs of Work Index

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

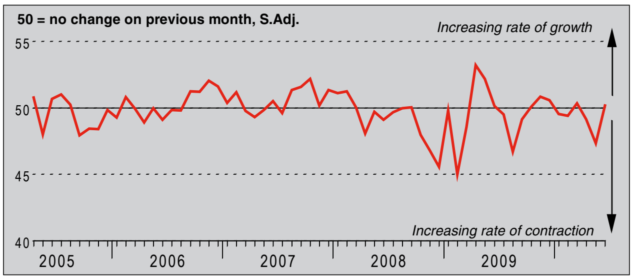


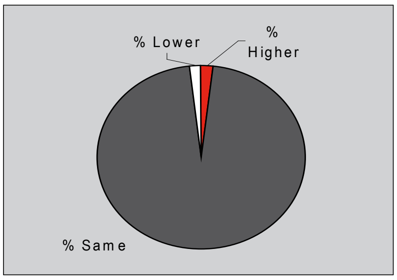


Backlogs of work at Indian manufacturing units accumulated at a series record pace during the latest survey period. Survey participants stated that hold-ups were caused by a combination of rising workloads and power cuts. Just 2% of companies noted a fall in outstanding work, against 13% that reported a rise.

Stocks of Finished Goods Index

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

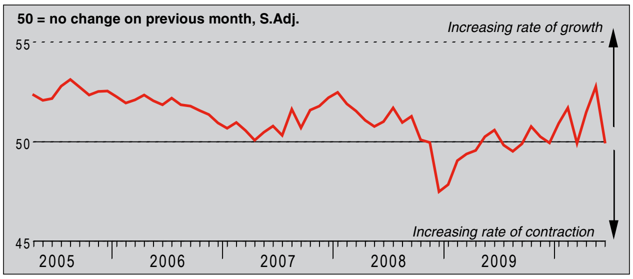


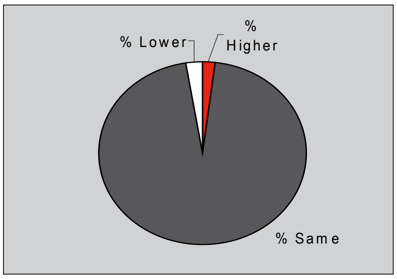


For only the second time in 2010, finished goods stocks at Indian manufacturers rose in June. However, the rate of accumulation was only fractional as the vast majority of the survey panel (over 96%) saw no change in their holdings since May. Where inventories grew, firms attributed this to stock rebuilding as business conditions improved.

Employment Index

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

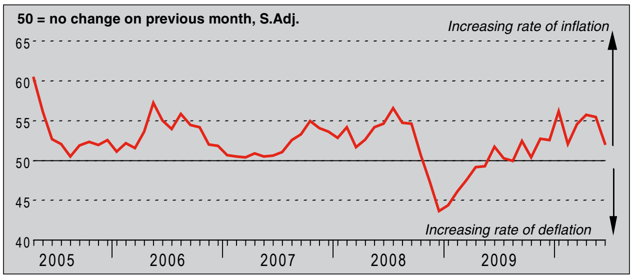


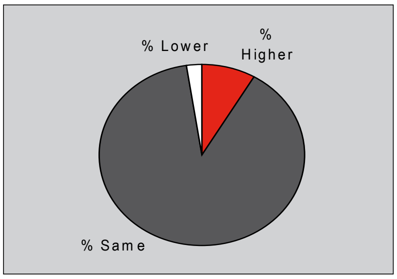


After two straight months of growth, overall staffing numbers across the Indian manufacturing industry were unchanged in June. Where additional employees were taken on, panellists mentioned greater production requirements. Meanwhile, companies that noted a reduced workforce lined this to personnel going on leave and retirements.

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.

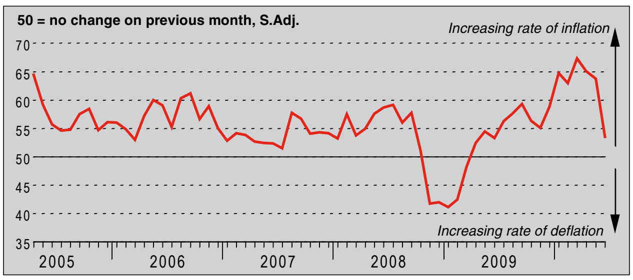


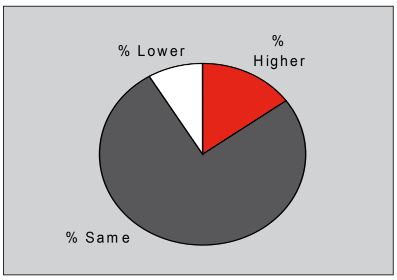


Reflecting a noticeable slowdown in input price inflation, Indian manufacturers raised their charges at the weakest rate since February at the end of the second quarter. Output prices increased modestly, which companies linked to both pressure on profit margins and stronger market demand. However, most panellists (89%) left their tariffs unchanged over the month.

Input Prices Index

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

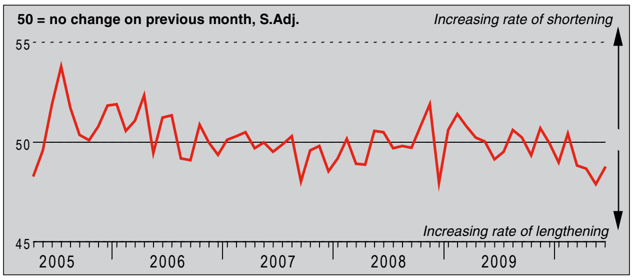


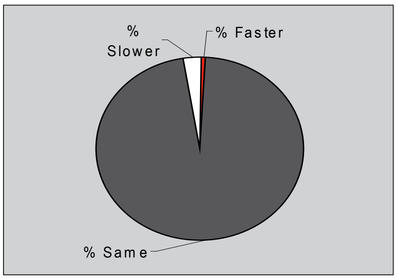


Purchasing cost inflation faced by Indian manufacturers slowed sharply in June, as shown by a more-than-ten point drop in the seasonally adjusted Input Prices Index since May. Latest data pointed to a solid month-on-month increase in input costs – the mildest rise for a year. The 15% of firms that recorded a rise mainly commented on greater raw material and fuel costs, partly as a result of short supplies.

Suppliers' Delivery Times Index

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

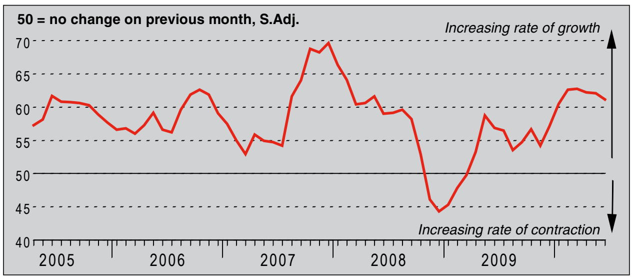


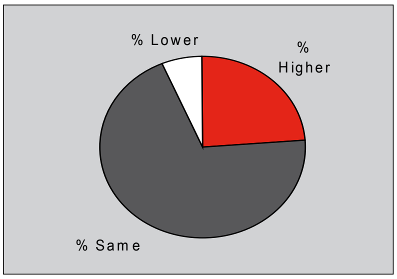


June data signalled another deterioration in vendor performance. Lead times on deliveries of raw materials and semi-finished goods to Indian manufacturers lengthened at a modest rate, albeit more slowly than in the previous month. Respondents indicated that high demand for inputs and difficulties sourcing certain commodities were behind the latest delays.

Quantity of Purchases Index

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

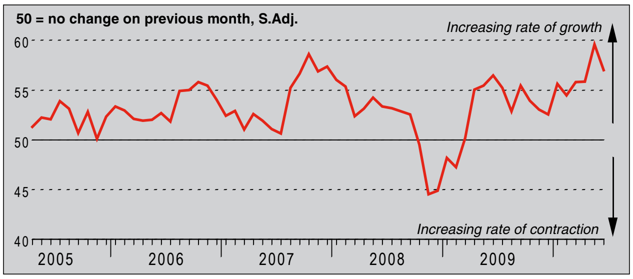


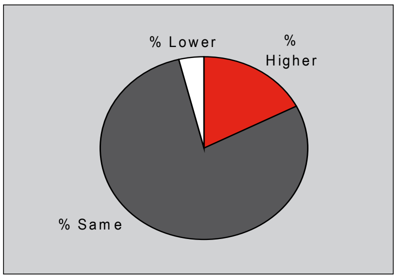


Indian manufacturers acquired additional inputs in June, bringing the current run of growth to fifteen months. Holdings of raw materials and semi-manufactured goods rose sharply, albeit to a lesser extent than during the previous four survey periods. Firms stated that increased buying activity reflected greater production requirements. Data suggested that stock-building was also a factor.

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 fell in June. Nevertheless, the index remained firmly above the 50.0 no-change mark to indicate another substantial increase in input holdings at Indian manufacturers. The latest expansion reflected another sharp rise in purchases of raw materials and semi-manufactured goods.

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' 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.

Warning

The intellectual property rights to the HSBC India Manufacturing PMI provided herein is owned by Markit Group Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Markit, PMI and Purchasing Managers' Index are all trademarks owned by The Markit Group.