

## HSBC India Manufacturing PMI™

Output growth picked up in July, but employment remained largely unchanged

### Summary

The seasonally adjusted HSBC Purchasing Managers' Index™ (PMI™) – a headline index designed to measure the overall health of the manufacturing sector – climbed fractionally in July to 57.6, after slipping to 57.3 in June. The rise in the index signalled a faster improvement in operating conditions across India's manufacturing industry.

Indian manufacturers raised output during July, extending the current sequence of growth to sixteen months. The latest expansion was sharp and the most pronounced since March, with one-third of respondents noting a rise.

Supporting higher activity levels was another substantial inflow of new business. Despite a noticeable acceleration in new export order growth since June, data continued to imply that domestic demand was stronger than foreign demand. Panellists commented on an improved economic environment, successful advertising campaigns and reputations for high-quality goods.

To accommodate higher levels of production, Indian manufacturers purchased greater volumes of inputs at the start of Q3. Although it was the mildest since last December, growth of buying activity remained substantial. Consequently, holdings of raw materials and semi-finished goods rose markedly.

Supplier delivery times lengthened for the fifth month running in July as demand for inputs grew. However, the rate of deterioration slowed to only a fractional pace.

Anecdotal evidence suggested that Indian manufacturers continued to be dogged by power outages in July, as both power cuts and higher volumes of new orders were given as reasons for the latest rise in outstanding business. Backlogs accumulated at a moderate pace, although to a lesser extent than during Q2.

In spite of another sharp rise in market demand and a further build-up of backlogs, staffing levels remained largely unchanged across India's manufacturing sector in July. Where new workers were taken on, this was commonly linked to greater production requirements. Meanwhile, firms that recorded a contraction frequently mentioned natural wastage and difficulties in sourcing skilled labour.

Both input and output price inflation gained pace during the latest survey period. However, each measure remained far weaker than their respective year-to-date averages.

### Comment

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

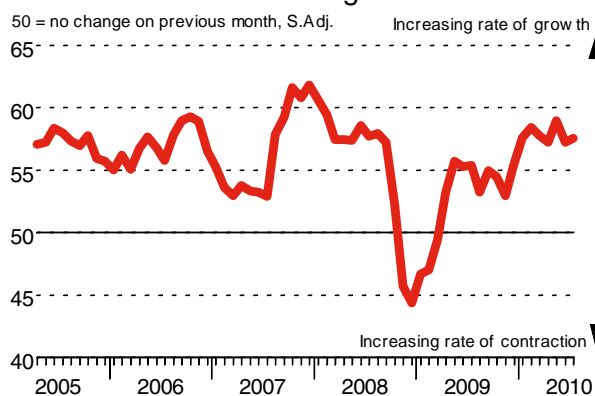
*"India is on a roll. The economy was given another leg up in July as new orders continued to pour in. Even the export sector appears to be holding up well, despite worries over cooling demand abroad. Strong growth, however, comes at a price: input and output price pressures show few signs of easing. As a result, the central bank will need to apply the brakes more forcefully and dampen demand with further interest rate hikes. Employment, to be sure, has dipped a little in July, but if recent trends persists this should prove to be a blip, rather than a more fundamental deterioration in the labour market."*

### Key points

- Output and new orders increased at accelerated rates.
- Power cuts continued to affect production and led to further rise in backlogs.
- Price pressures strengthened slightly..

### Historical Overview

#### HSBC India Manufacturing PMI



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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](mailto:economics@markit.com).

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