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## HSBC India Manufacturing PMI™

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

### Key findings:

- 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.

After faltering slightly at the end of 2010's second quarter, expansions in both output and new business gained pace in July – the former to the fastest rate since March. However, the benefits of healthier order books were not fully felt by workers, as employment stagnated for the second successive month. Meanwhile, price pressures strengthened alongside higher market demand, although the rise in purchasing costs remained modest in relation to the series' historical trend.

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. However, the latest figure remained below the twenty-seven month high recorded in May.

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. As has been the case for the past seven months, new order receipts increased at a faster rate than the long-term series average. 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.

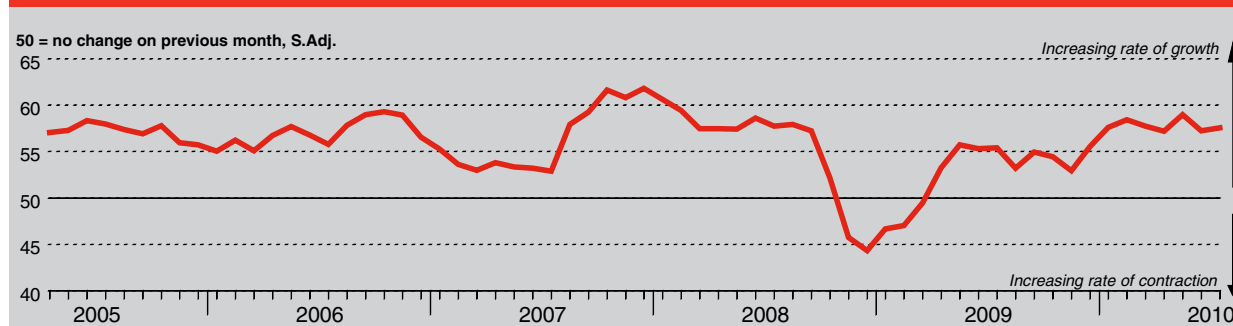
Supplier delivery times lengthened for the fifth month running in July as demand for inputs grew. However, the rate of deterioration slowed to only a fractional pace.

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. Respondents blamed higher raw material costs for the latest rise in purchasing prices. Meanwhile, the increase in charges was attributed to greater cost burdens and favourable economic conditions.

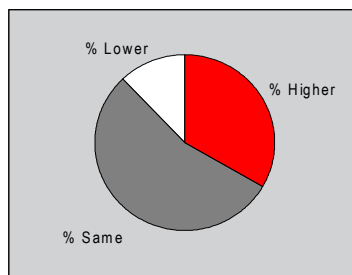
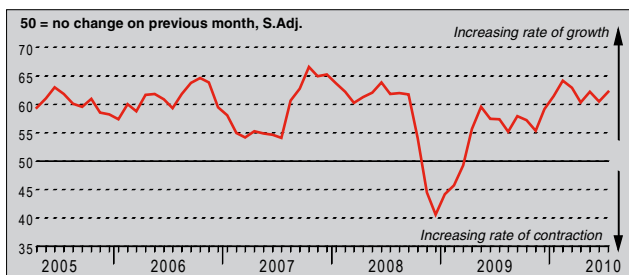
HSBC India Purchasing Managers' Index™ (PMI™)



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

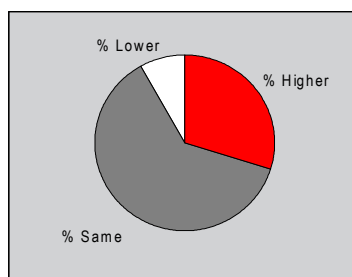
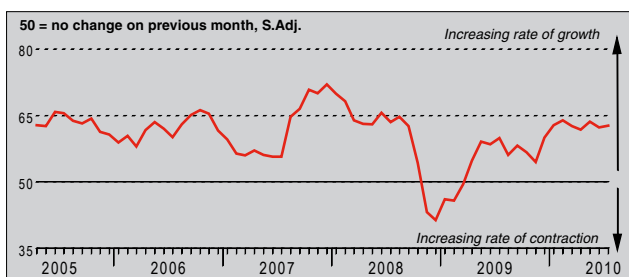
Q. Please compare your production/output this month with the situation one month ago.



After dipping slightly at the end of the second quarter, the seasonally adjusted Output Index regained some ground in July, hitting a four-month peak. The latest reading pointed to a considerable rate of expansion in Indian manufacturing production that was above the post-crisis trend. Exactly one-third of monitored companies raised manufacturing output since June, citing further gains in new business.

### New Orders Index

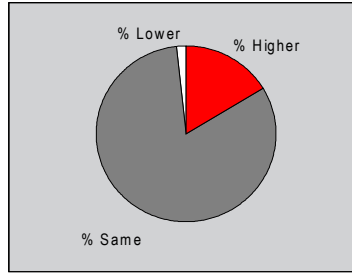
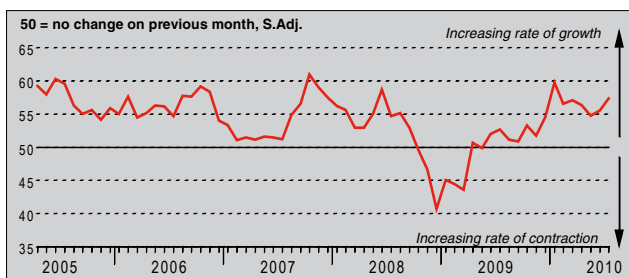
Q. Please compare the level of new orders received (India and export) this month with the situation one month ago.



Indian manufacturers noted another expansion of their order books at the start of Q3 as new business receipts rose for the sixteenth month running. Moreover, growth accelerated fractionally to a substantial pace that was the sharpest since May. A combination of better market conditions, promotional activities and strong company reputations underpinned the rise in demand, according to respondents.

### New Export Orders Index

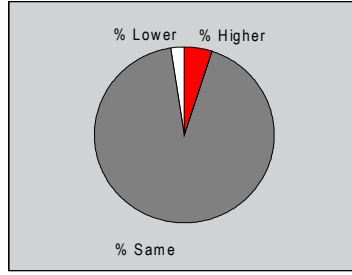
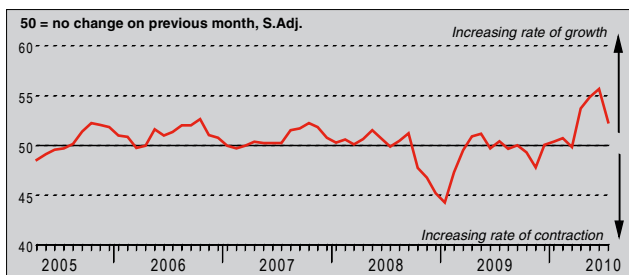
Q. Please compare the level of new export orders received this month with the situation of one month ago.



Foreign demand for Indian manufactures continued to strengthen in July, supporting further growth of new export business across the sector. Data pointed to a sharp and accelerated increase in new work from abroad, although the latest expansion remained weaker than the corresponding rise in domestic new orders. Panellists commented on favourable market conditions and high quality products.

### Backlogs of Work Index

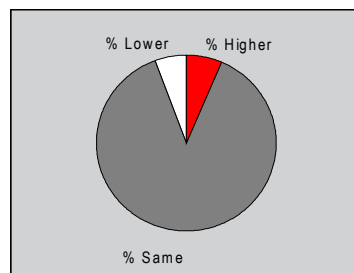
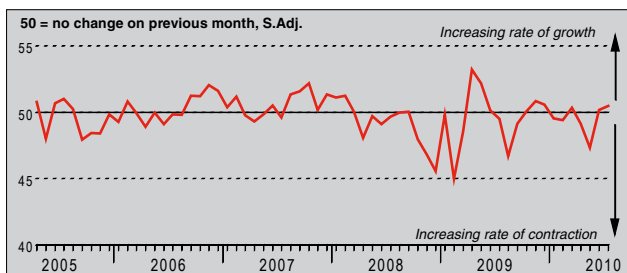
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



A combination of greater new order levels and ongoing power cuts resulted in another build-up of backlogs at Indian manufacturers in July. Outstanding business rose at a moderate pace, albeit more slowly than during the previous quarter. Companies have now reported growth of work-in-hand in seven of the past eight months.

### Stocks of Finished Goods Index

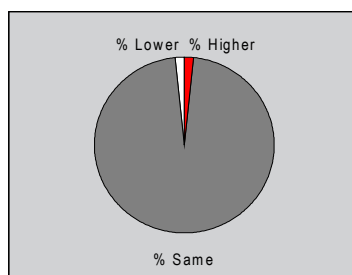
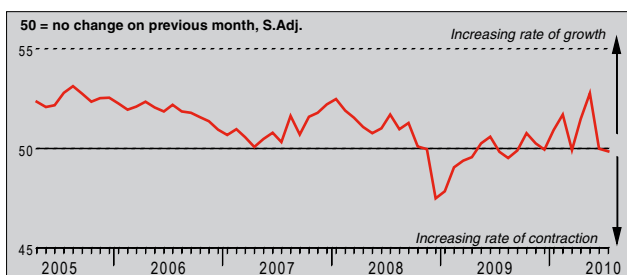
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Holdings of finished goods at Indian manufacturers accumulated for the second month in succession during July, albeit at only a marginal pace. Anecdotal evidence suggested that the main reason for stock building was the need to accommodate strengthening market demand. Where post-production inventories fell on the month, this was commonly linked to higher-than-expected sales.

### Employment Index

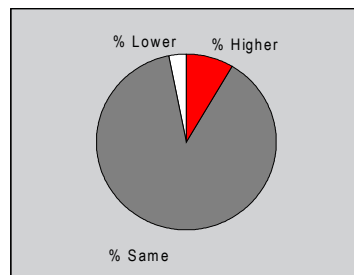
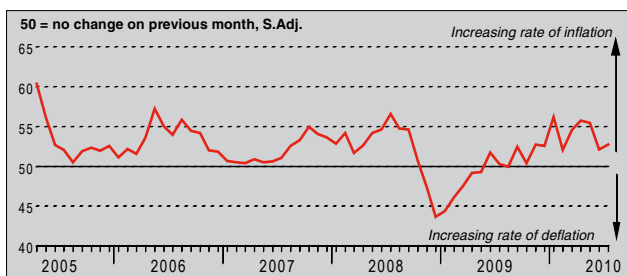
Q. Please compare the level of employment at your unit with the situation one month ago.



Staffing across India's manufacturing industry was broadly unchanged again in July. This was highlighted by the seasonally adjusted Employment Index, which registered close to the no-change mark of 50.0 for the second straight month. Firms that hired additional labour did so primarily to cope with higher market demand, while those that noted lower personnel levels mentioned natural wastage and difficulties in sourcing skilled workers.

### Output Prices Index

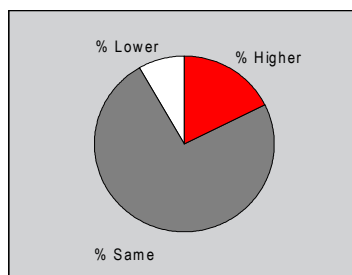
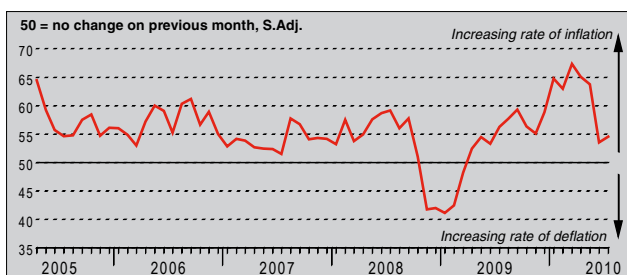
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Indian manufacturers continued to raise their charges at the start of 2010's third quarter, principally in response to improving economic conditions and upward pressure from input costs. Furthermore, output price inflation accelerated slightly to a moderate pace, after slowing in June. Factory gate prices in the sector have risen continually for almost a year.

### Input Prices Index

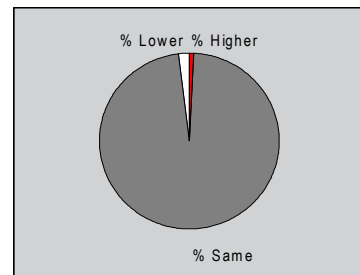
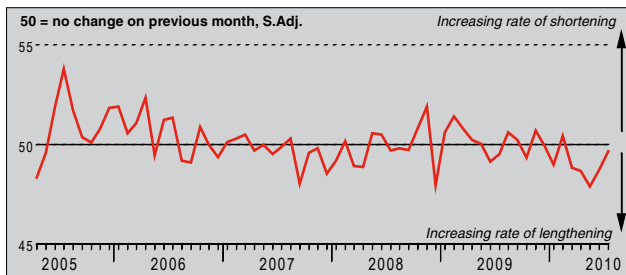
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



After slowing sharply at the end of Q2, input price inflation faced by Indian manufacturers picked up slightly in July. Even so, the rate of increase remained subdued by the historical standards of the survey. Reports indicated that higher raw material prices, partly resulting from shortages of certain commodities, was the primary driver of input cost inflation.

## Suppliers' Delivery Times Index

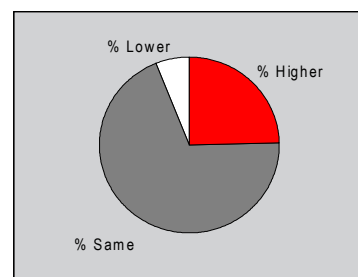
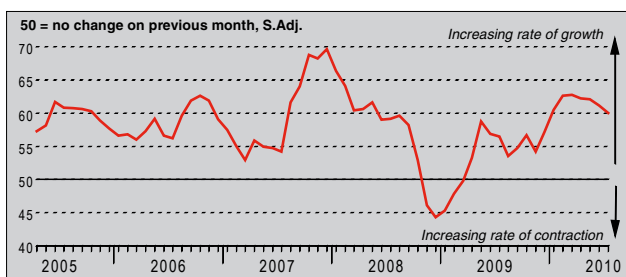
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



For the fifth straight month, Indian manufacturers reported a lengthening of delivery times from suppliers. However, the rate of deterioration was only fractional and the mildest of the current sequence. The vast majority (over 97%) of panellists saw no change in vendor performance on the month. Where lead times increased, this was frequently attributed to greater demand for inputs.

## Quantity of Purchases Index

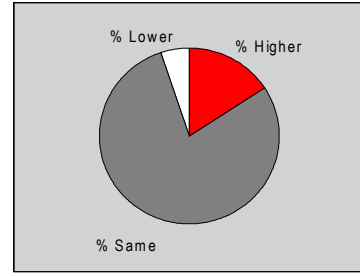
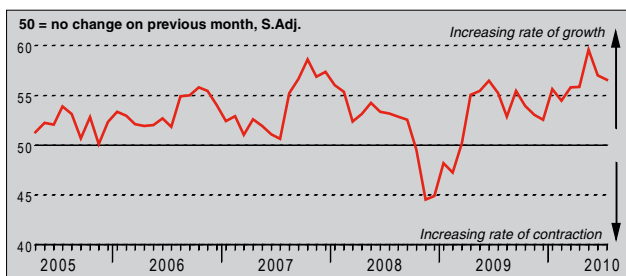
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



In response to further growth of new business, Indian manufacturers purchased additional inputs in July, bringing the current run of expansion to sixteen months. Survey participants indicated that extra inputs were needed both to meet current production requirements and to build-up holdings of raw materials and semi-finished goods. Although still sharp, the rate of increase moderated slightly since June.

## Stocks of Purchases Index

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



The seasonally adjusted Stocks of Purchases Index slipped further from May's survey record peak in July, hitting a three-month low. Even so, the latest figure remained comfortably above the series trend, signalling a marked increase in input holdings at Indian manufacturing units. Companies stated that inventories were accumulated to ensure a ready supply of inputs to the production process.

## 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.

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