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HSBC India Manufacturing PMI™

Growth of Indian manufacturing sector sustained for seventeenth successive month.

Key findings:

- Expansion in new orders slowed slightly, but remained sharp.
- Strong increase in output failed to impact positively on staffing levels.
- Input price inflation increased for second consecutive month.

August survey data, compiled by Markit for HSBC, indicated a marked strengthening of business conditions in the Indian manufacturing sector. The latest expansion was slightly weaker than that indicated in the previous survey period, but remained strong in the context of historical data. The marginally lower PMI reading was driven by a slight slowdown in new order growth. Nonetheless, output expanded at the same pace as in July, with backlogs continuing to rise. Despite this, employment in the sector fell, albeit only marginally. Input prices increased again during the month, and at the fastest rate in three months, prompting a further rise in output prices.

The seasonally adjusted HSBC Purchasing Managers' Index™ (PMI™) – a headline index designed to measure the overall health of the manufacturing sector – posted 57.2 in August, falling slightly from July's 57.6. The latest reading pointed to a marked expansion of the Indian manufacturing sector which, despite being the joint-slowest in eight months, continued to show a strong rebound in business conditions following the downturn at the end of 2008/beginning of 2009. Moreover, growth remained above the long-run average for the series.

Incoming new business continued to rise at a substantial pace during August. The latest expansion in new orders slowed slightly in the month, but maintained the strong growth trend seen throughout 2010. The increase in new export business also slowed, but remained above the historical average for the

series.

The latest rise in overall new orders supported a further substantial increase in output. The rate at which production expanded was in line with that recorded in July. Nonetheless, backlogs of work continued to accumulate. Manufacturers commented that shortages of raw materials and power cuts had led to the latest rise in outstanding business, alongside the sustained rise in new orders.

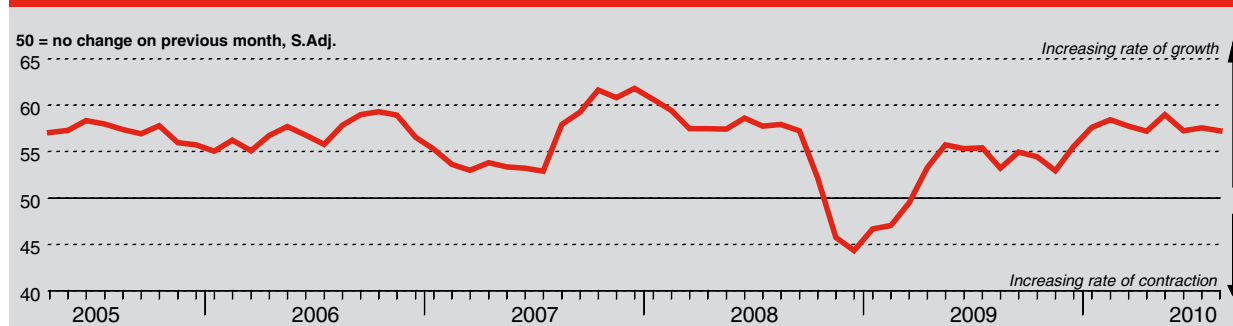
August data signalled an increase in stocks of finished goods at manufacturers in India. However, the extent of the rise was only marginal.

Despite sharp growth in new orders and output, employment within the Indian manufacturing sector fell for a second consecutive month in August. However, the latest reduction in headcounts was only marginal.

Reflective of increased production, purchasing activity rose again during August, and at a marked rate. Subsequently, suppliers' delivery times lengthened. Some panellists also noted that shortages of materials had contributed to the latest deterioration in vendor performance.

Input price inflation was reported for a seventeenth successive month in August, with the latest increase driven by higher raw material prices. Charges also rose, although the extent of the increase was limited by strong competition for new business.

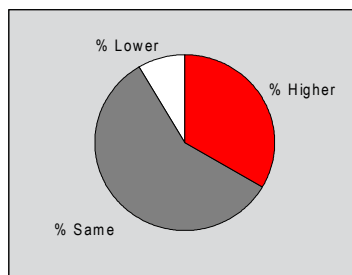
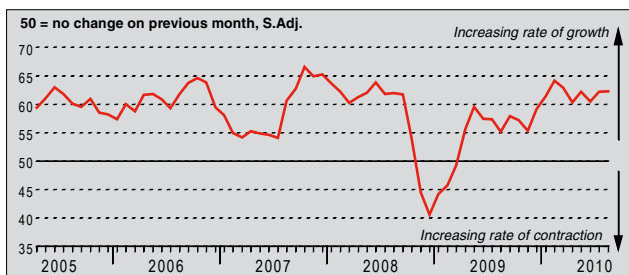
HSBC India Purchasing Managers' Index™ (PMI™)



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

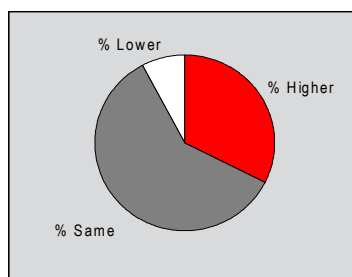
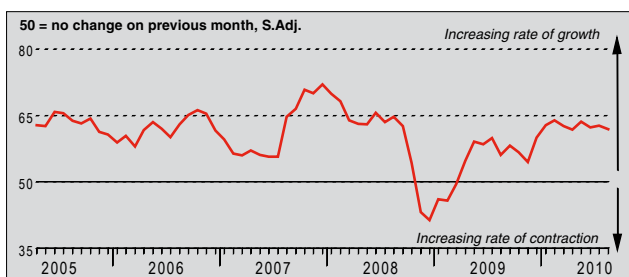
Q. Please compare your production/output this month with the situation one month ago.



Manufacturers in India reported a substantial rise in output during August, extending the sequence of sustained growth to seventeen months. The rate of expansion was unchanged from that recorded in July, and comfortably above the long-run average for the series. Approximately one-third of panellists indicated that output had increased compared to the previous month, and many attributed this to a further rise in new orders received.

New Orders Index

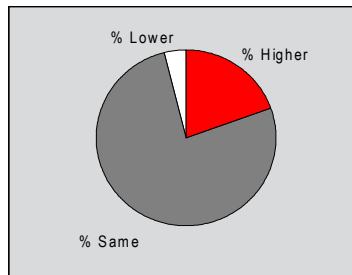
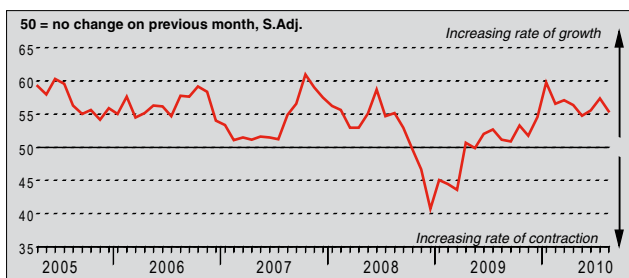
Q. Please compare the level of new orders received (India and export) this month with the situation one month ago.



August data signalled substantial growth in new orders received by manufacturers in India, with panellists attributing this to a general improvement in markets conditions and stronger demand. Additionally, some panellists noted that new orders had increased due to the quality of their products. Expansion in incoming new business has now been sustained since April 2009. The rate of new order growth slowed marginally since July to the weakest in four months. Nonetheless, it remained strong in the context of historical data.

New Export Orders Index

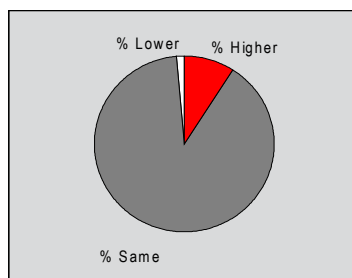
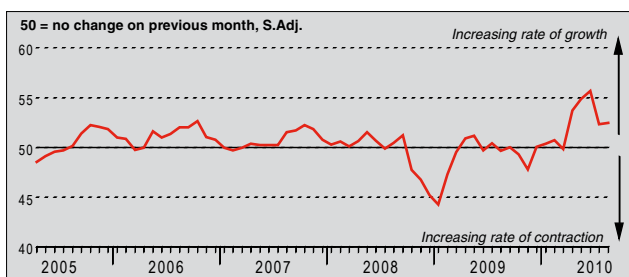
Q. Please compare the level of new export orders received this month with the situation of one month ago.



Incoming new business received from export markets increased markedly during August. Anecdotal evidence suggested that the latest rise in new export orders, which was the fifteenth in successive months, was supported by ongoing improvements in global economic conditions. However, the rate of expansion slowed moderately since July, with some panellists noting that competition was strong. Nonetheless, August's increase in new export business was above the historical average for the series.

Backlogs of Work Index

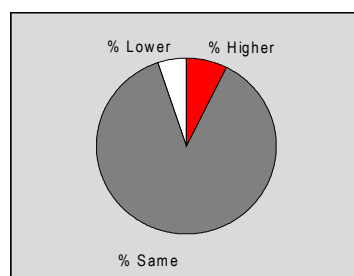
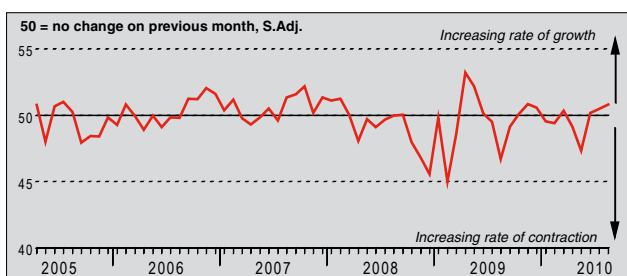
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Backlogs of work at manufacturers in India increased at a moderate rate in August, suggesting that pressures on production capacity continued. Anecdotal evidence suggested that higher new order intakes, shortages of raw materials, and power cuts contributed to the latest rise in backlogs. Whilst the latest accumulation in outstanding business was marked in the context of historical data, it was slower than the series-record high recorded in June.

Stocks of Finished Goods Index

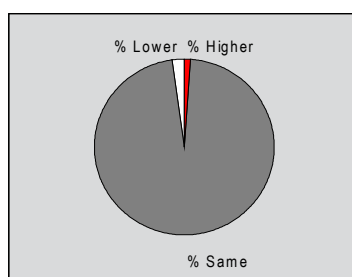
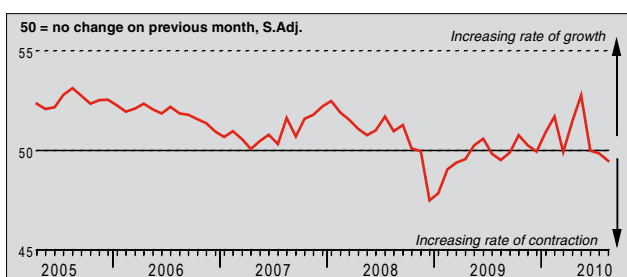
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Indian manufacturing companies reported a slight rise in stocks of finished goods during August. Post-production inventories have increased in each of the last three months, albeit at marginal rates. Panellists commented that the rise in finished goods stocks reflected higher output. However, the majority of panellists (approximately 88%) noted that inventories were unchanged since July.

Employment Index

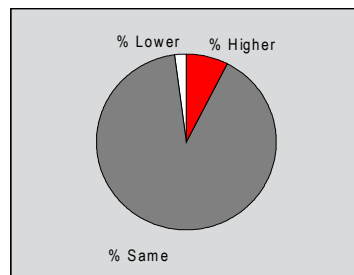
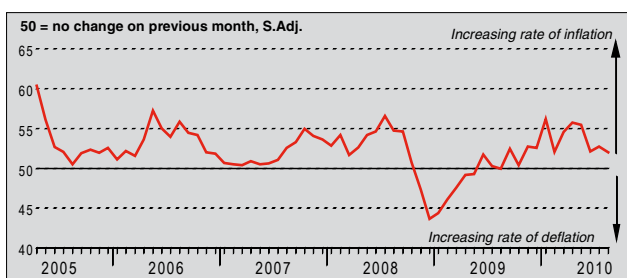
Q. Please compare the level of employment at your unit with the situation one month ago.



Despite substantial rises in both new orders and output, employment within the Indian manufacturing sector was reported to have fallen during August. Panellists commented that lower staffing levels reflected natural attrition, although this was partially offset by others indicating that employment rose to accommodate increased output. However, in line with the marginal reduction in headcounts indicated, the vast majority of panellists (approximately 97%) signalled that employment remained unchanged since July.

Output Prices Index

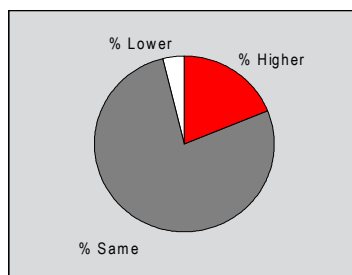
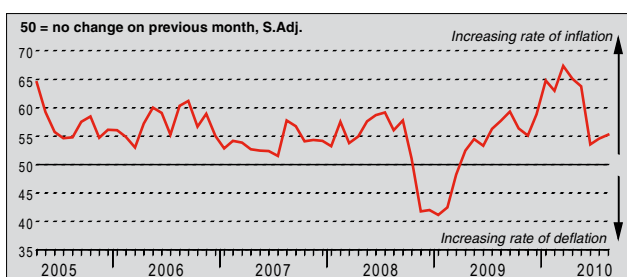
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Output prices increased modestly during August, extending the current period of rising charges to fifteen-months. Anecdotal evidence suggested that the latest increase in output prices reflected a further rise in input costs, although the extent of the increase was limited by strong competition for new business. Subsequently, August's output price inflation was the slowest in ten months and below the long-run average for the series.

Input Prices Index

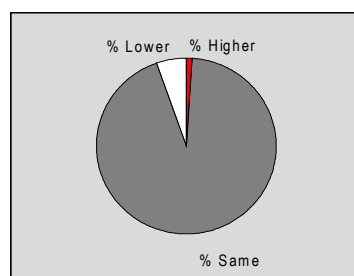
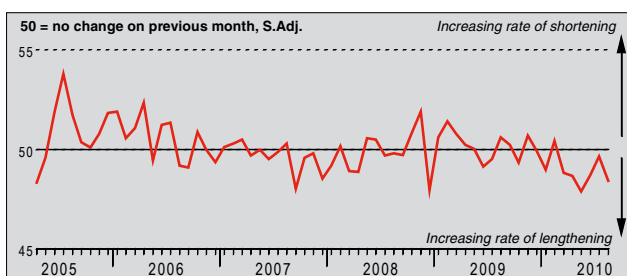
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Input prices faced by manufacturers in India increased markedly during August, driven by a further rise in raw material prices. Whilst the rate of input cost inflation increased for a second successive month, it remained lower than those rises seen in the first five months of the year, and was below the long-run average for the series. Nonetheless, input costs have now increased in each of the last seventeen months.

Suppliers' Delivery Times Index

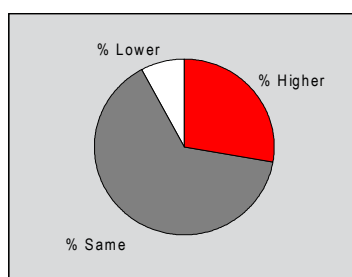
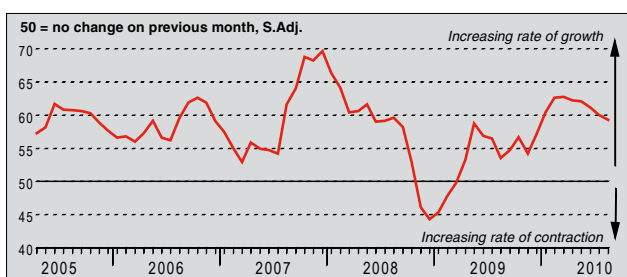
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Manufacturing companies in India reported a lengthening in suppliers' delivery times during August. This was the sixth successive month where longer lead times were indicated, and whilst the latest deterioration in vendor performance was only modest, it remained sharp in the context of historical data. Panellists indicating a lengthening in delivery times attributed this to a further rise in purchasing activity, alongside shortages of certain materials at vendors.

Quantity of Purchases Index

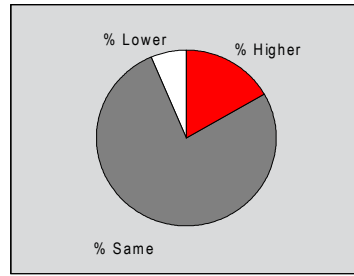
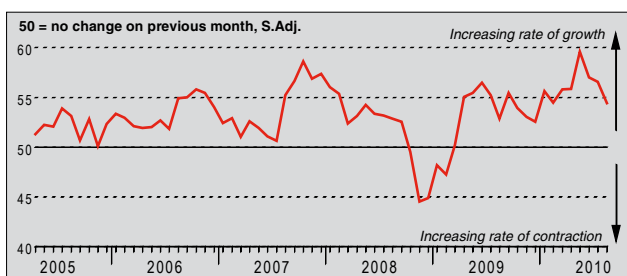
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



August data signalled a strong rise in purchasing activity at manufacturers in India, with approximately 28% of panellists reporting an increase from the previous month. The latest rise in input buying reflected ongoing expansions in both new orders and output requirements. Whilst growth in input buying slowed for a fifth successive month to the weakest since December 2009, it remained above the long-run average for the series. Purchasing activity has now risen in each of the last seventeen months.

Stocks of Purchases Index

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



Indian manufacturing companies continued to accumulate stocks of purchases during August, and at a marked rate. Panellists commented that the rise in pre-production inventories reflected higher purchasing activity. The rate of stock accumulation slowed for a third successive month from the series-record high seen in May, but remained sharp in the context of historical data.

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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