HSBC Purchasing Managers' Index™ Press Release

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compiled by markit

HSBC India Manufacturing PMI™

Growth of Indian manufacturing sector sustained for seventeenth successive month

Summary

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.

Comment

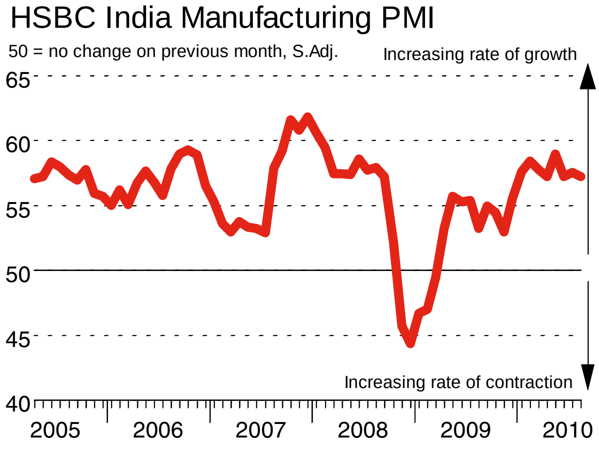
Commenting on the India Manufacturing PMI survey, Frederic Neumann, Co-Head of Asian Economics Research at HSBC said:

"India's economy shows no signs of cooling off. Output continues to expand at a brisk pace and new orders remain in solid expansionary territory, signalling further growth ahead. But, growth comes at a price: inflationary pressures, already a concern, continue to simmer, with input prices rising and output price pressures only easing marginally. To be sure, the labor market may be relaxing a bit, with companies no longer hiring as aggressively as before. But, so far there are few signs that this is curtailing inflationary pressures meaningfully."

Key points

- 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.

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.

HSBC:

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About Markit:

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About PMIs:

Now available for 26 countries and key regions including the Eurozone and BRIC, Purchasing Managers' Indexes™ (PMIs™) have become the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to www.markit.com/economics.