HSBC Purchasing Managers' Index™ 2010

compiled by markit

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HSBC India Manufacturing PMI™

Expansion of Indian manufacturing sector weakest in ten months.

Key findings:

- New order growth remained marked, but slowed for second successive month.
- Strong rise in output failed to boost employment.
- Rising raw material prices drove input prices higher at stronger pace.

September survey data, compiled by Markit for HSBC, signalled a further marked expansion of the Indian manufacturing sector. However, the latest improvement in business conditions was weaker than that reported in August. New order growth remained strong, but eased in the month, contributing to a slower expansion in output. Nonetheless, backlogs of work continued to rise, indicating that pressure on production capacity was sustained. However, this was not sufficient to boost employment, which fell slightly. Meanwhile, input and output prices rose again. Input cost inflation accelerated, but strong competition led to only a marginal rise in charges.

The seasonally adjusted HSBC Purchasing Managers' Index™ (PMI™) – a headline index designed to measure the overall health of the manufacturing sector – posted 55.1 in September, decreasing from August's reading of 57.2. The latest PMI pointed to a marked strengthening in business conditions in the Indian manufacturing sector, although the extent of the improvement was the weakest in ten months.

A marked rise in new order volumes was reported in September, with panellists attributing this to generally better global economic conditions. However, growth in overall new business intakes slowed for a second successive month to the weakest since November 2009. Similarly, new export orders also rose at a slower rate in September.

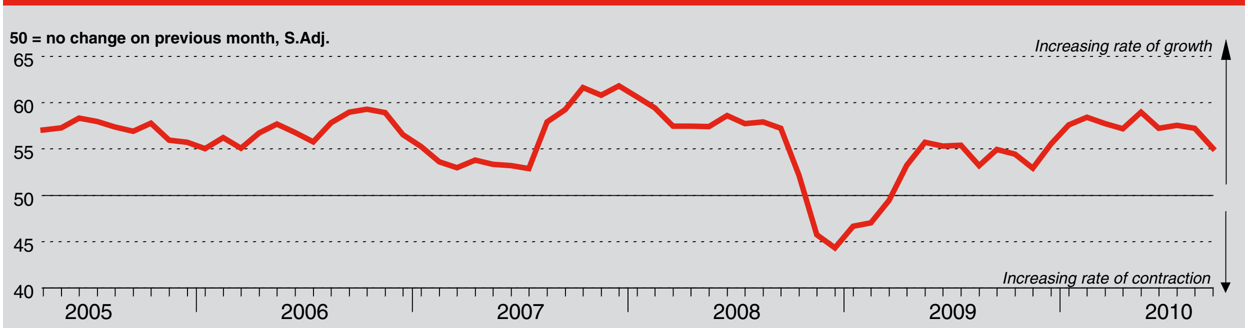
The overall increase in new business supported a rise in output. Although reflective of the slowdown in new order growth, the latest expansion in production was also weaker. A further increase in backlogs of work at manufacturers in India suggested that pressures on production capacity continued. Stocks of finished goods fell marginally, due to higher new order volumes.

Despite gains in new orders and outstanding business, employment in the Indian manufacturing sector decreased in September for a third successive month. Anecdotal evidence suggested that employees leaving companies were not being replaced. However, the decline in staffing levels remained marginal.

Purchasing activity rose markedly during September, reflective of sustained growth in new orders and output. Manufacturers also continued to increase stocks to accommodate higher production requirements.

September data signalled a marked rise in input costs faced by manufacturers in India. Input price inflation has now been sustained for a year-and-a-half. A further increase in raw material prices predominately drove the latest increase in costs, which was faster than that indicated in August. Nonetheless, output prices rose at a weaker rate in September, with strong competition for new business limiting the extent to which charges could be increased.

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.

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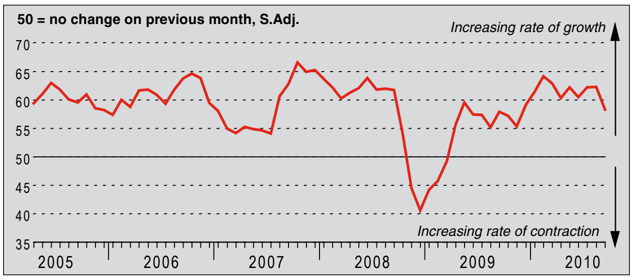
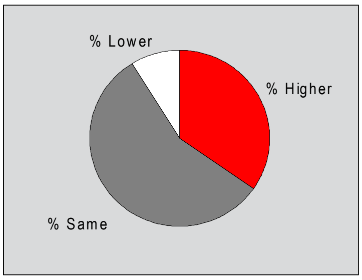
Output Index

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

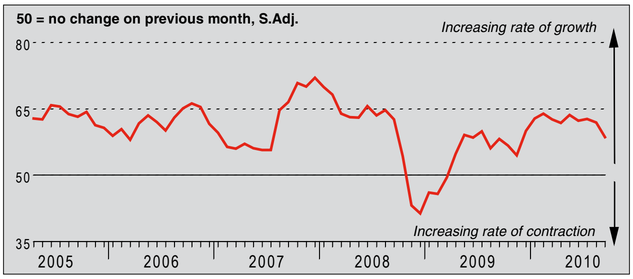


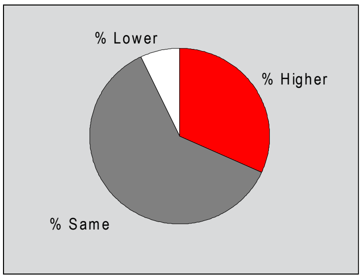


Indian manufacturers reported a marked rise in output during September, extending the sequence of sustained growth to eighteen months. Panellists indicating an increase in output attributed this to a further expansion in new order volumes. However, the rate at which output grew slowed since August to the weakest in ten months. Moreover, the latest rise in production was slightly slower than the long-run average for the series.

New Orders Index

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

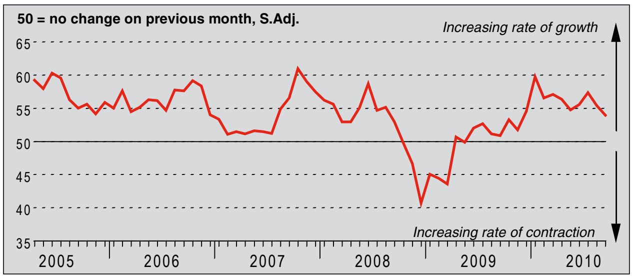


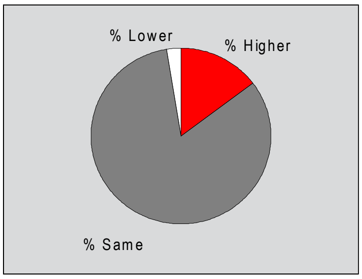


September data signalled a marked rise in incoming new business received by manufacturers in India. Anecdotal evidence suggested that the increase in new order volumes reflected a general improvement in economic conditions and the high quality of goods produced. However, the rate of new order growth slowed for a second successive month, with some panellists commenting that demand had eased compared to earlier in the year. Nonetheless, overall new work intakes have now increased continuously since April 2009.

New Export Orders Index

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

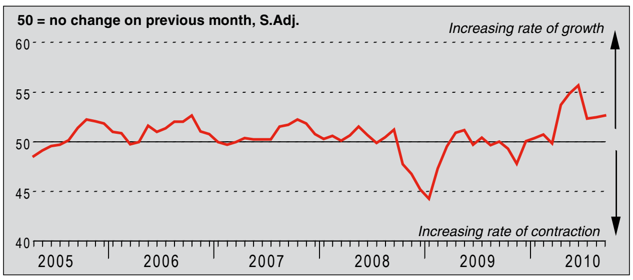


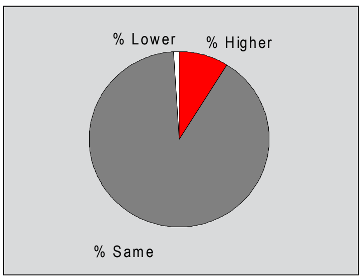


New export orders received by Indian manufacturers increased solidly during September. Panellists indicating an expansion in new export business attributed this to an improvement in global economic conditions. However, the rate at which new export orders increased slowed for a second successive month from July's six-month high. Nonetheless, new orders received from export markets have now risen continuously since June 2009.

Backlogs of Work Index

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

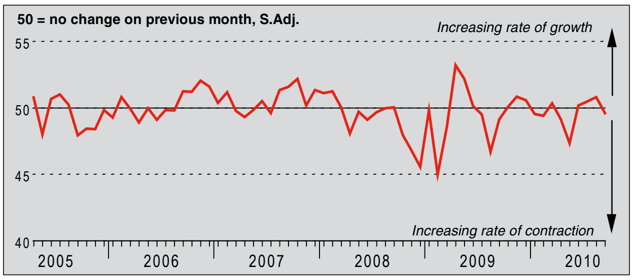


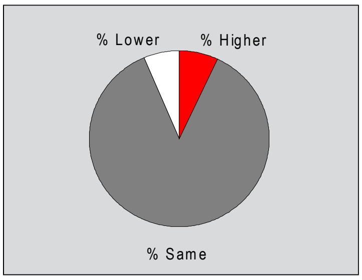


Backlogs of work at manufacturers in India increased solidly during September, suggesting that ongoing pressure on production capacity. Levels of outstanding business have now increased for six successive months, with the latest rise remaining strong in the context of historical data. Panellists commented that a further expansion in new orders led to the increase in backlogs during the month, with the latest rise in output insufficient to meet current order book requirements.

Stocks of Finished Goods Index

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

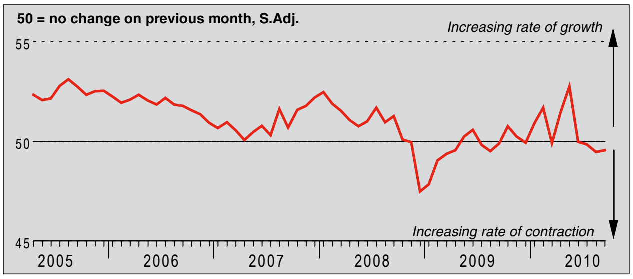


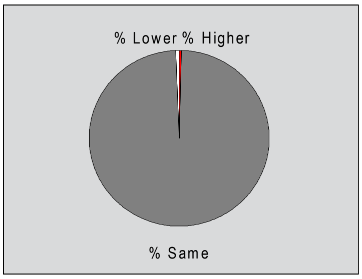


The seasonally adjusted Stocks of Finished Goods Index posted slightly below the 50.0 no-change threshold in September, signalling a small decrease in post-production inventories at manufacturers in India. This ended a three-month period where marginal rises in finished goods stocks had been reported. Panellists indicating a reduction in post-production inventories attributed this to a further increase in new order obligations. Some manufacturers also noted that higher input prices had led them to utilise existing stocks.

Employment Index

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

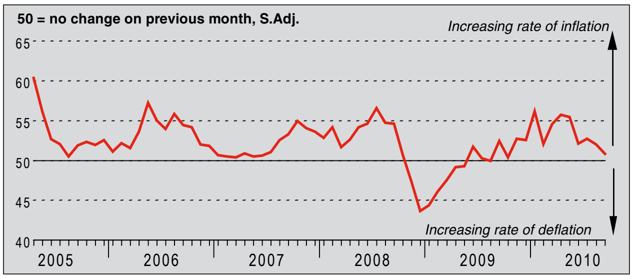


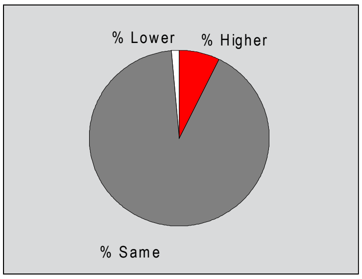


September data signalled a slight reduction in employment within the Indian manufacturing sector. This was the third successive month where lower staffing levels have been reported, despite sustained sharp rises in both new orders and output. However, in line with the marginal nature of the decrease in employment, the vast majority of panellists (approximately 99%) indicated that staffing levels were unchanged since August.

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.

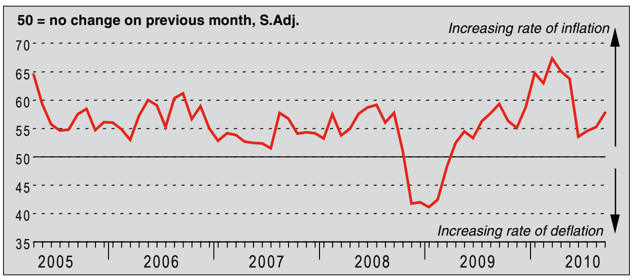


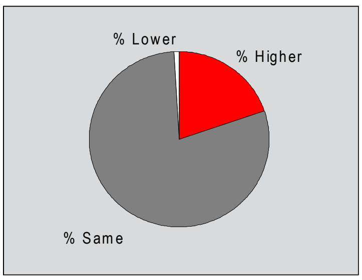


Manufacturers in India reported a marginal rise in output prices during September. This extended the current sequence of inflation to thirteen months, with panellists attributing the latest increase in charges to a further rise in input costs. However, the rate of output price inflation slowed for a second successive month to the weakest since October 2009. Anecdotal evidence suggested that strong competition for new business had prevented a sharper rise in charges.

Input Prices Index

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

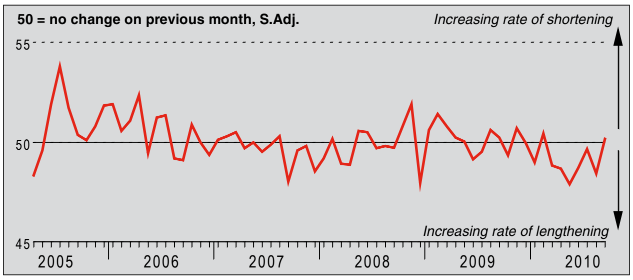


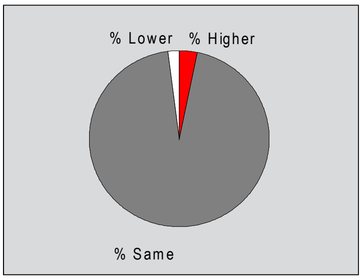


Input prices faced by manufacturers in India increased markedly during September. Moreover, the rate of input cost inflation accelerated since August to the strongest in four months. Panellists commented that rising raw material prices had contributed to the latest increase in costs. Some manufacturers also noted that there were shortages of certain materials. Increases in input prices have now been recorded in each of the last eighteen months.

Suppliers' Delivery Times Index

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

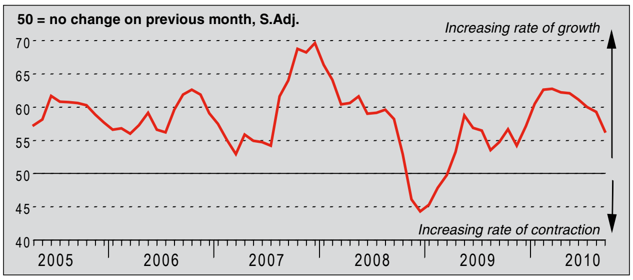


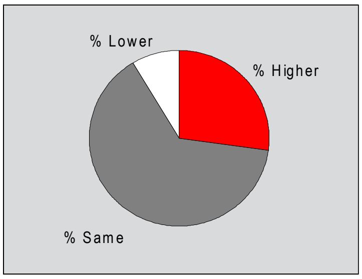


The seasonally adjusted Suppliers' Delivery Times Index posted fractionally above the 50.0 no-change threshold in September, indicating a negligible improvement in vendor performance. This ended a six-month sequence where lead times had increased. However, highlighting the fractional extent of the improvement in delivery times, the majority of panellists (approximately 95%) indicated that lead times were unchanged since August.

Quantity of Purchases Index

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

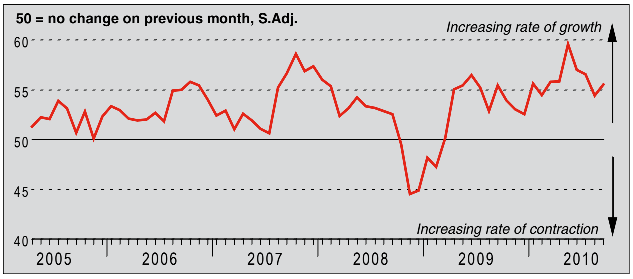


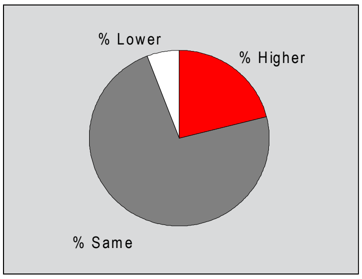


September data signalled a marked rise in purchasing activity at manufacturers in India. This was the eighteenth successive month where an increase in input buying was reported, although the extent of the latest rise was the weakest since November 2009. Approximately 23% of panellists indicated that purchasing activity had increased since August, the majority attributing the latest rise to sustained growth in new orders and output requirements.

Stocks of Purchases Index

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





Manufacturers in India reported a marked rise in stocks of purchases during September, with increases now recorded in each of the last nineteen months. Moreover, the rate at which pre-production inventories accumulated was faster than in August and remained strong in the context of historical data. Anecdotal evidence suggested that the latest increase in stocks of purchases reflected a further rise in output requirements.

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