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## HSBC India Manufacturing PMI™

Improvement of business conditions in the Indian manufacturing sector gathered pace in October.

### Key findings:

- Overall new order growth was sharp.
- Employment increased, boosted by expansion in output.
- Input price inflation strongest in five months.

October survey data, compiled by Markit for HSBC, signalled marked growth of the Indian manufacturing sector. Furthermore, the latest expansion was stronger than that indicated in the previous month. A sharp rise in incoming new business supported a substantial increase in output. Backlogs rose again, indicating that pressure on operating capacity persisted. Subsequently, employment rose for the first time in five months as companies tried to alleviate bottlenecks. Meanwhile, input costs increased sharply, driven by rising raw material prices. Output prices also increased, albeit to a relatively modest degree.

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 October, rising from September's reading of 55.1. The latest PMI pointed to a marked overall expansion of the Indian manufacturing sector. Moreover, the strengthening of business conditions regained the momentum lost in September.

October data signalled a substantial rise in new order volumes received by manufacturers in India. This was the nineteenth successive month where an increase in incoming new business was indicated. Whilst the rate of new order growth accelerated from September's ten-month low, it remained softer than the notably steep

expansions recorded at the start of 2010. New export orders rose during the month, but at the slowest pace since November 2009.

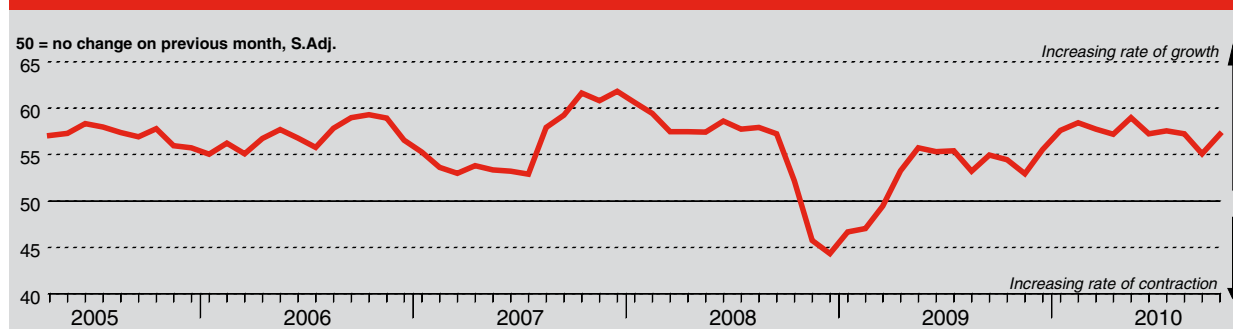
Output expanded sharply in October, reflective of the sustained increase in new orders. Despite this, backlogs of work accumulated further, indicating that pressure on operating capacity continued. Finished goods stocks rose fractionally during the month.

Indian manufacturers reported a marginal increase in employment during October, attributing this to sustained growth in output and new orders. However, despite the marked improvement in business conditions indicated over the year so far, October's job creation was only the first increase in staffing levels in five months.

Purchasing activity increased markedly in October, due to higher production requirements. Subsequently, suppliers' delivery times lengthened, albeit only marginally.

October data signalled a marked rise in input prices faced by manufacturers in India. Moreover, the rate of input cost inflation was stronger than that recorded in September. The increase in input costs drove a further rise in output prices. However, this was relatively small compared to that seen for input prices, suggesting that manufacturers were still finding it difficult to pass on increased costs to customers.

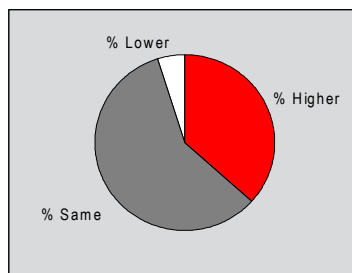
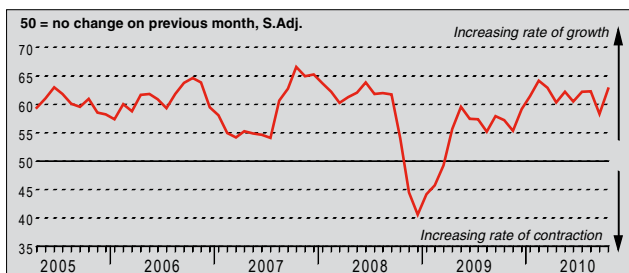
HSBC India Purchasing Managers' Index™ (PMI™)



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

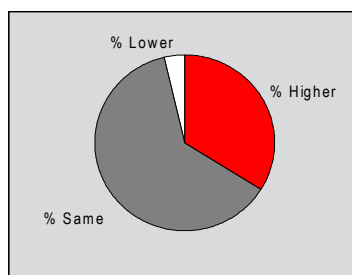
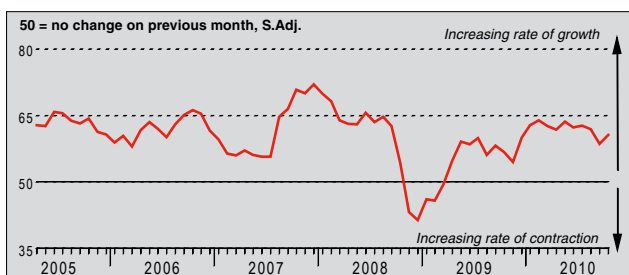
Q. Please compare your production/output this month with the situation one month ago.



Output in the Indian manufacturing sector increased substantially during October. Moreover, the pace at which production expanded regained the momentum lost in the previous month, with the latest expansion the strongest in seven months. Anecdotal evidence suggested that the hosting of the Commonwealth Games had some negative impact on output during the month, although expanding production resulting from increased new orders more than offset this. Growth in output has been sustained since April 2009.

### New Orders Index

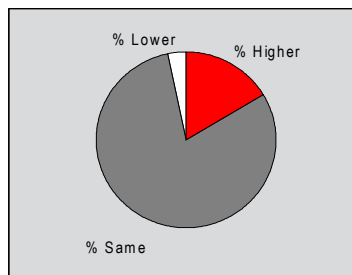
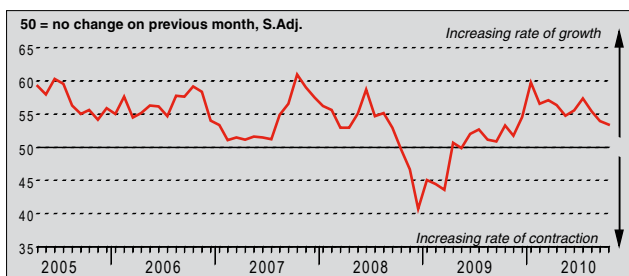
Q. Please compare the level of new orders received (India and export) this month with the situation one month ago.



October data signalled a substantial rise in new orders received by manufacturers in India, as improving economic conditions continued to boost demand. New work intakes have now increased for nineteen successive months, with the latest growth in line with the long-run series average. The pace of new order growth was faster than that indicated in September, but remained lower than those expansions seen in the first eight months of 2010.

### New Export Orders Index

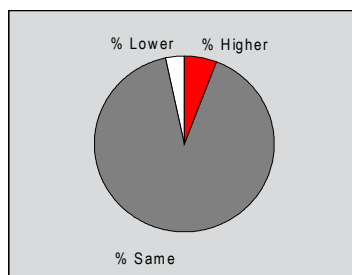
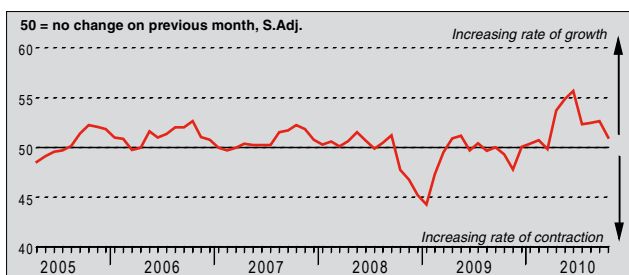
Q. Please compare the level of new export orders received this month with the situation of one month ago.



Manufacturers in India reported a solid rise in new export orders received during October, extending the sequence of sustained growth to seventeen months. October's increase in new export business was attributed to stronger global economic conditions. However, the latest increase in new business received from export markets slowed for a third successive month to the weakest since November 2009.

### Backlogs of Work Index

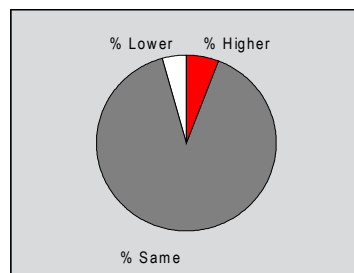
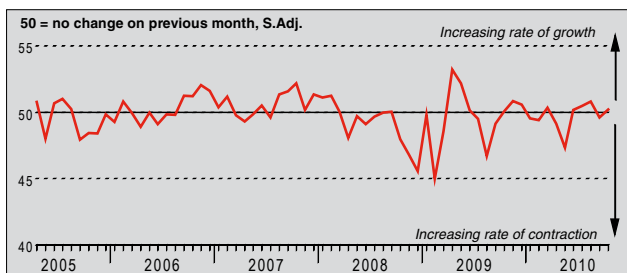
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Backlogs of work at manufacturing companies in India increased marginally during October, with panellists predominately attributing this to increased new order volumes. Some respondents also noted that raw materials shortages had negatively impacted on the speed of production. The rate at which outstanding business accumulated eased since September, but remained faster than the long-run series average. Backlogs have increased in each of the last seven months.

### Stocks of Finished Goods Index

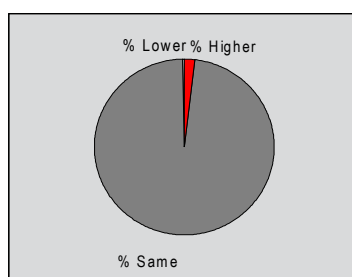
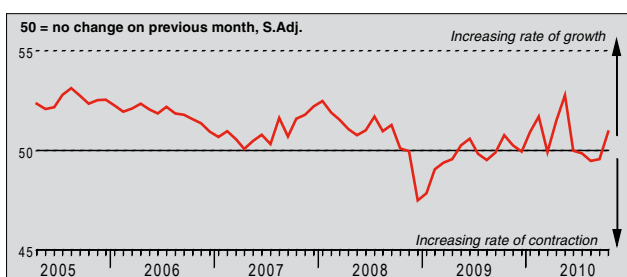
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



The seasonally adjusted Stocks of Finished Goods Index posted slightly above the 50.0 no-change threshold in October, signalling a fractional rise in post-production inventories at manufacturers in India. This was in contrast to the previous survey period, where a marginal reduction in finished goods stocks was indicated. In line with the small rise in inventories recorded, the majority of panellists (approximately 90%) noted that stocks were unchanged during the month.

### Employment Index

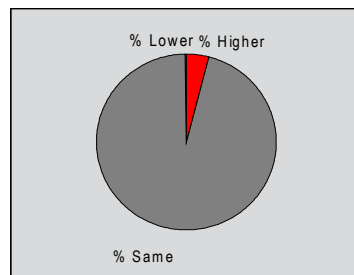
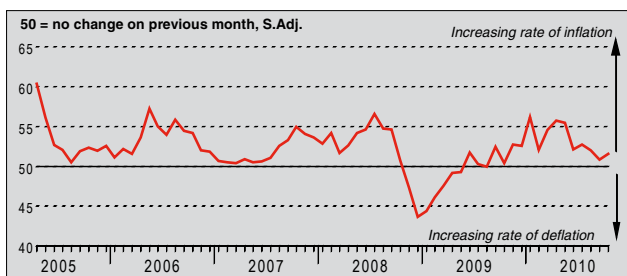
Q. Please compare the level of employment at your unit with the situation one month ago.



October data signalled a marginal rise in employment within the Indian manufacturing sector. The increase in staffing levels was the first in five months. Panellists indicating a rise in headcounts compared to a month previous attributed this to sustained increases in new orders and output requirements. However, the vast majority of respondents (approximately 98%) noted that employment was unchanged since September.

### Output Prices Index

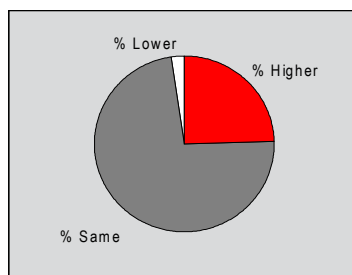
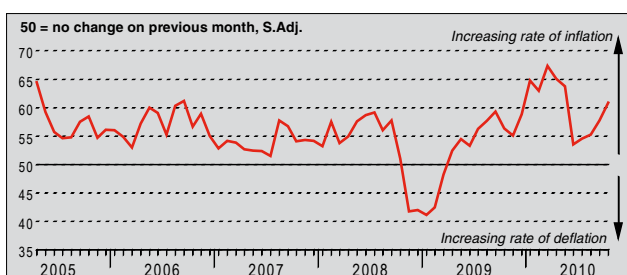
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Manufacturers in India reported a modest rise in output prices during October. Anecdotal evidence suggested that the rise in output prices reflected higher input costs. The latest increase in charges was the fourteenth in successive months but, whilst slightly faster compared to the previous survey period, remained below the long-run average for the series. The increase in charges was also relatively small in comparison to costs, indicating that strong competition for new business had prevented a more substantial rise.

### Input Prices Index

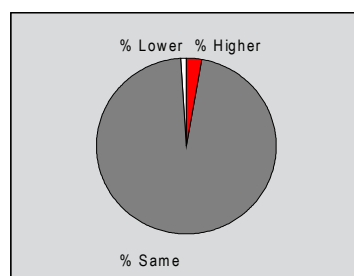
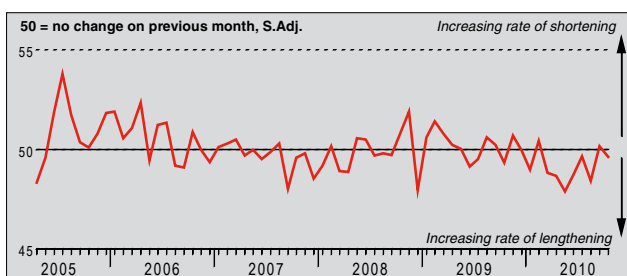
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Input prices faced by manufacturers in India increased substantially during October. Moreover, the rate of input cost inflation accelerated for a fourth successive month to the fastest since May, and was notably sharp in the context of historical data. Approximately one-quarter of panellists noted that input costs had increased during the month, and predominately attributed this to higher raw material prices.

## Suppliers' Delivery Times Index

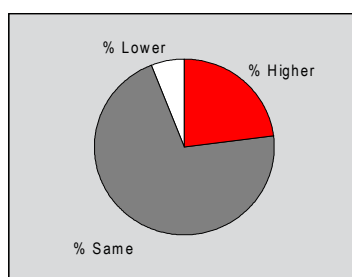
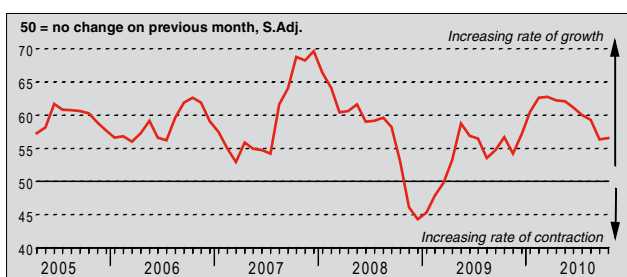
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



The seasonally adjusted Suppliers' Delivery Times Index posted slightly below the 50.0 no-change threshold in October, signalling a marginal lengthening in lead times. Anecdotal evidence suggested that the deterioration in vendor performance reflected increased purchasing activity and shortages of materials at suppliers. However, in line with the small increase indicated, the vast majority of panellists (approximately 96%) noted that lead times were unchanged during the month.

## Quantity of Purchases Index

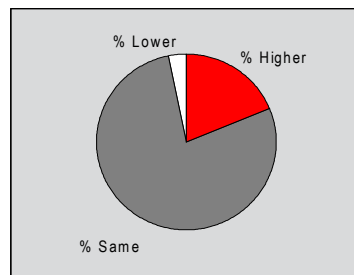
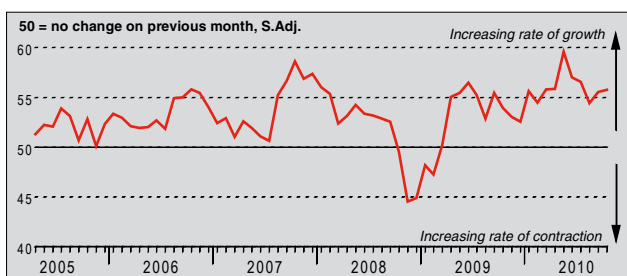
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



October data signalled a marked rise in purchasing activity at manufacturers in India, with panellists attributing this to sustained growth in output and new orders. This was the nineteenth successive month where an increase in input buying was recorded, although the extent of the latest rise was broadly unchanged from that indicated in September. It also remained below the long-run average for the series.

## Stocks of Purchases Index

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



Indian manufacturers reported a marked rise in stocks of purchases during October. The extent to which pre-production inventories accumulated was largely unchanged since September, although it remained strong in the context of historical data. Approximately 19% of panellists indicated that inventories were higher than in the previous month, commenting that increased production requirements had led them to maintain a higher level of stocks.

## 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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