

HSBC India Manufacturing PMI™

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

Summary

The latest PMI pointed to a marked overall expansion of the Indian manufacturing sector. 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. 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.

Comment

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

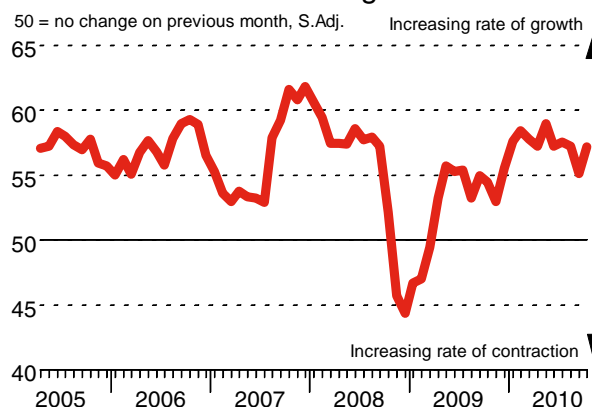
"After some bouncy data in the last few months, India's economy has picked up steam again. The manufacturing sector remains supported by strong local consumption growth, and growing employment suggests that domestic demand will remain robust. Price pressures, however, are still too strong for comfort, possibly prompting the central bank to hike again before the end of the year."

Key points

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

Historical Overview

HSBC India Manufacturing PMI



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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.

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