

HSBC India Manufacturing PMI™

Indian manufacturing sector grew at slower rate in December

Summary

The seasonally adjusted HSBC Purchasing Managers' Index™ (PMI™) – a headline index designed to measure the overall health of the manufacturing sector – posted 56.7 in December, marginally lower than November's 58.4. The latest reading pointed to a marked improvement of business conditions in the Indian manufacturing sector. Whilst the rate of growth slowed, it remained above the long-run series average.

December data signalled a marked rise in incoming new business received by manufacturers in India. However, the latest expansion in new order volumes was slightly weaker than in the previous survey period. Growth of new business received from overseas markets also eased marginally at the end of 2010, but remained strong and comfortably above the historical trend.

Output increased substantially in December, reflective of sustained growth in overall new orders. However, backlogs of work increased for a ninth successive month. The rate at which outstanding business accumulated was weaker than in the previous survey period, but remained fast in the context of historical data. This suggested that pressures on operating capacity persisted as workloads continued to rise. In some cases, shortages of materials and labour compounded delays in production. Stocks of finished goods increased only slightly in December.

Despite sustained expansions of new business and output, employment in the Indian manufacturing sector was unchanged during the month.

Purchasing activity at manufacturers in India continued to rise markedly during December. However, in line with slower growth of output, the increase in input buying eased. Nonetheless, delivery times lengthened again. Panellists commented that short supply and excess demand for materials had led to the deterioration in vendor performance. Stocks of purchases rose for the twenty-second successive month in December as manufacturers continued to increase pre-production inventories.

December data signalled a substantial rise in input prices faced by manufacturers in India. Input costs have increased in each month since April 2009, with the latest rate of inflation the strongest in eight months and notably sharp in the context of historical data. Output prices also rose markedly during the month, and at the fastest pace since May.

Comment

Commenting on the India Manufacturing PMI survey, Leif Eskesen, Chief Economist for India & ASEAN at HSBC said:

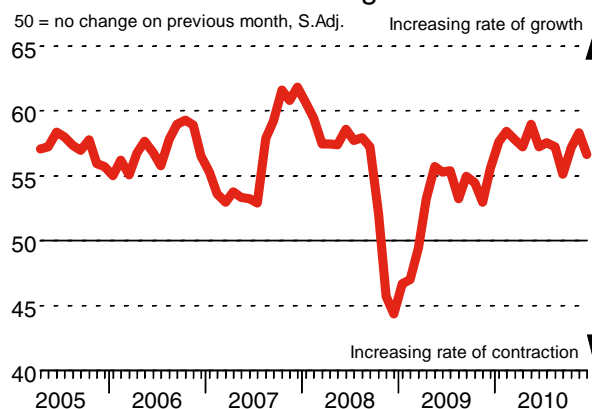
"Notwithstanding the deceleration from last month, these numbers are testament to the strong momentum in the manufacturing sector. Output continues to grow rapidly and order books are still getting thicker. The strong momentum is pushing the sector to the limit, with capacity constraints tightening. This is showing up in more outstanding business, lengthening delivery times, and, of more concern, an acceleration in both input and output prices. RBI's hawkish tones in their latest statement are well founded and tightening will resume in early 2011."

Key points

- Rises in new business and export orders weakened.
- Staffing levels unchanged since November.
- Input and output prices increased at fastest paces for eight and seven months respectively.

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.

HSBC:

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