HSBC Purchasing Managers' Index™ 2011

compiled by markit

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HSBC India Manufacturing PMI™

Growth of Indian manufacturing sector sustained in January at marked rate, but inflationary pressures continued to build.

Key findings:

- Substantial expansion in overall new business, despite weaker rise in new export orders.
- Employment declined marginally in January.
- Input cost inflation continued to accelerate.

January survey data, compiled by Markit for HSBC, signalled marked growth of the Indian manufacturing sector. The rate of expansion was broadly unchanged from the previous survey period, despite sharper increases in new order volumes and output, as staffing levels fell marginally. Inflationary pressures continued to rise at the start of 2011, with input costs increasing at their second-highest pace in the series history.

The seasonally adjusted HSBC Purchasing Managers' Index™ (PMI™) – a headline index designed to measure the overall health of the manufacturing sector – posted 56.8 in January, broadly in line with December's 56.7. The latest reading indicated a marked expansion of the Indian manufacturing sector and at a pace that was stronger than the long-run series average.

Incoming new business received by Indian manufacturers increased substantially during January. Moreover, the latest rise in new orders was faster than in the previous survey period and in line with the historical average for the series. Growth of new export business slowed to the weakest in three months, but has now been maintained for twenty successive months and remained above the long-run trend.

The sharp increase in overall new business supported a substantial rise in output at manufacturers in India. The expansion in production was stronger than that indicated in December, but weaker than last November's nine-month high. Despite steep growth of output, backlogs of work increased again in January. Panellists commented that higher new order volumes led to the rise in outstanding business, which was compounded by shortages of raw materials and manpower. That said, the latest increase in backlogs was the weakest in three months.

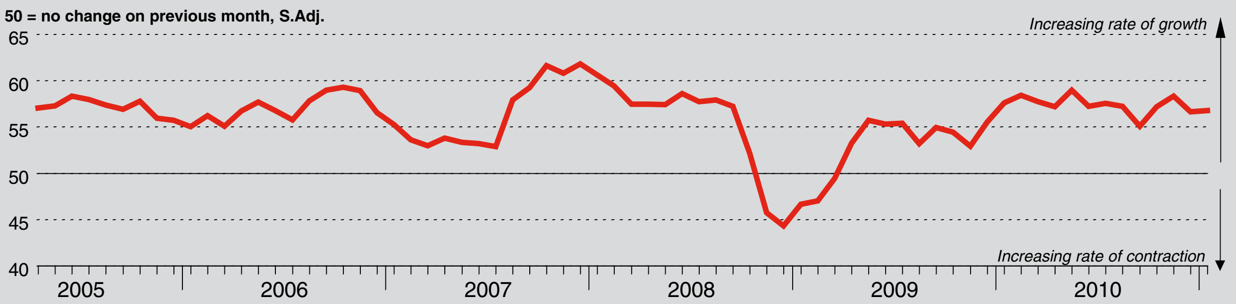
Stocks of finished goods decreased marginally at the start of 2011, with manufacturers utilising existing inventories to partially fulfil new order obligations.

Despite substantial growth of both new business and output, employment in the Indian manufacturing sector was down slightly during January. Panellists commented that demand for workers was outstripping availability, leading to difficulties in filling vacancies. However, the majority of respondents indicated that employment at their units was unchanged from the previous month.

January data signalled a marked rise in purchasing activity at manufacturers in India, reflective of higher production requirements. Subsequently, delivery times lengthened, with shortages of raw materials exacerbating the deterioration. Stocks of purchases rose, but at the weakest rate since August 2010.

Input prices faced by Indian manufacturing companies increased substantially during January. Moreover, the rate of input cost inflation was the second-sharpest in the series history. Higher raw material prices drove the latest rise in costs. Output prices also increased, and at a historically steep pace (albeit at a much slower rate than input costs).

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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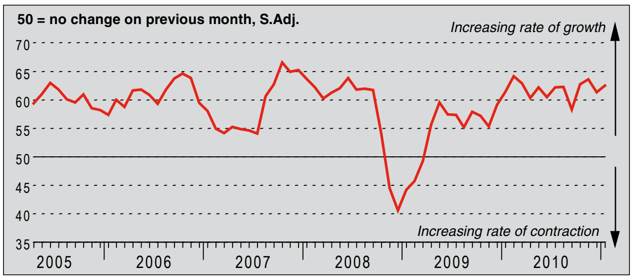
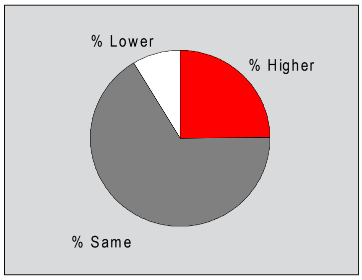
Output Index

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

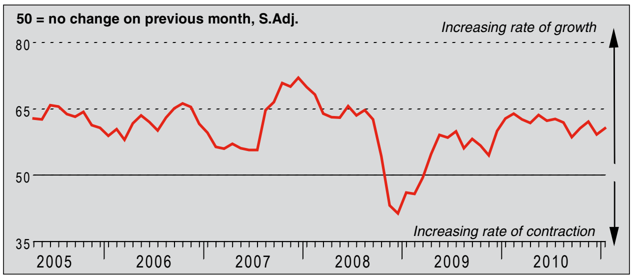


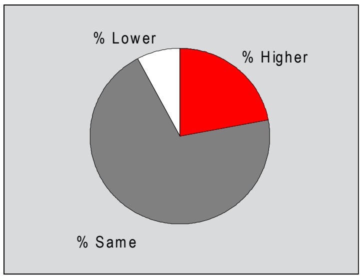


Output in the Indian manufacturing sector increased substantially during January. Moreover, the rate of growth was faster than in the previous survey period, but marginally weaker than November 2010's recent high. Around one-quarter of panellists indicated that output had increased in the latest survey period, and attributed this to a further rise in incoming new business. Output has now increased in each month 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.

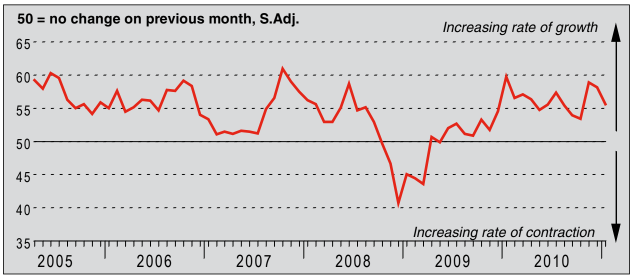


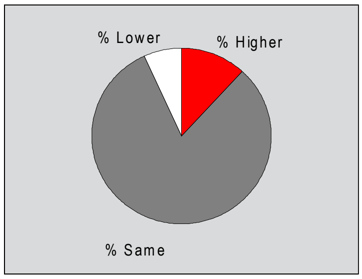


Indian manufacturers reported a substantial rise in new orders received during January, extending the sequence of sustained growth to twenty-two months. Anecdotal evidence suggested that stronger economic conditions had contributed to the increase in incoming new business. Some panellists also noted that the high quality of their products had helped to boost new work intakes. The rate at which new orders expanded was faster than in the previous survey period, and in line with the historical average for the series.

New Export Orders Index

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

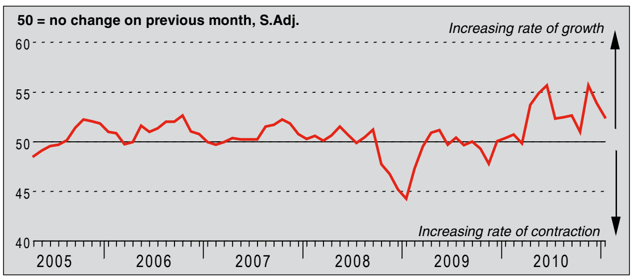


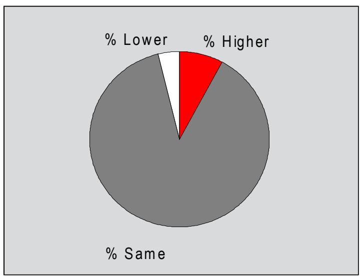


January data signalled a marked rise in incoming new business received by manufacturers in India from overseas markets. Anecdotal evidence suggested that ongoing improvements in global economic conditions boosted new export orders during the month. The rate of growth of new business received from export markets was the lowest in three months, but remained above the historical average for the series. New export orders have now increased for twenty successive months.

Backlogs of Work Index

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

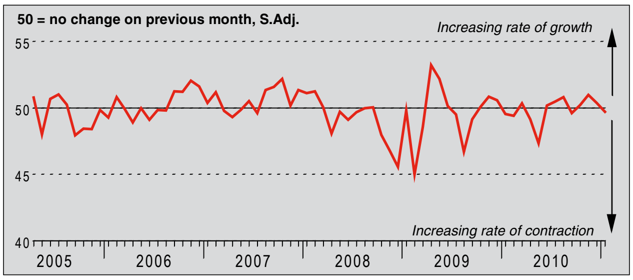


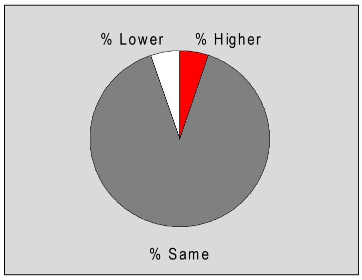


Backlogs of work at manufacturers in India increased modestly during January, with the respective index now posting above the 50.0 no-change threshold in each month since April 2010. Panellists commented that further growth in new order volumes had driven the rise in outstanding business, with many companies noting that shortages of raw material and manpower had compounded backlogs. The rate of accumulation slowed for a second successive month, but remained above the long-run trend for the series.

Stocks of Finished Goods Index

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

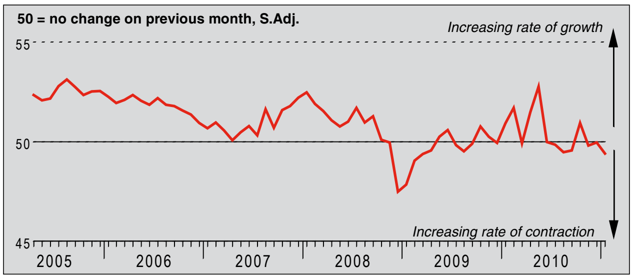


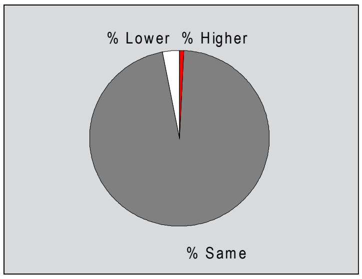


Stocks of finished goods at manufacturing companies in India were reported to have decreased slightly during January. This followed a three-month period where post-production inventories had increased. Panellists indicating a reduction in finished goods stocks attributed this to higher new order volumes. However, in line with the marginal nature of the decrease, the majority of respondents (approximately 90%) reported that post-production inventories were unchanged in the month.

Employment Index

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

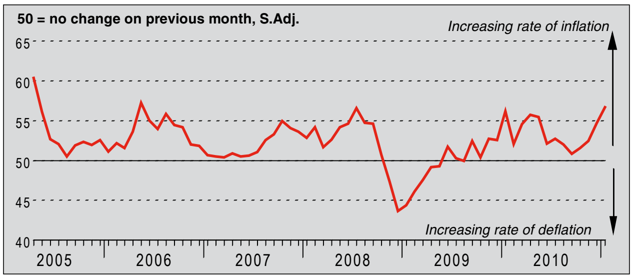


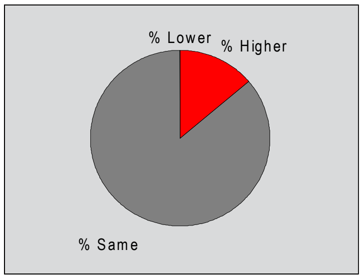


January data signalled a marginal reduction of employment in the Indian manufacturing sector. Anecdotal evidence suggested that demand for staff outstripped that of availability, with there being a subsequent shortfall of workers. Employment levels have struggled to increase since July 2010, with only one rise in staffing numbers reported in that period (employment was unchanged in December).

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.

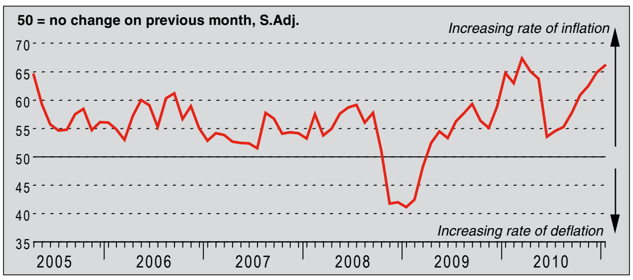


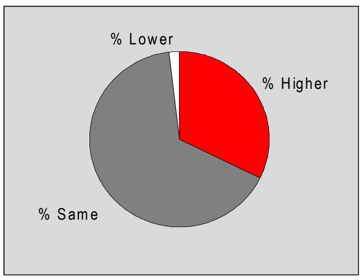


Indian manufacturers reported a marked rise in their output charges during January. Moreover, the rate of output price inflation accelerated for a fourth successive month, and was the third strongest in the series history. A further rise in input costs was cited as the primary driver of higher charges. Output prices have now increased in each of the last seventeen months.

Input Prices Index

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

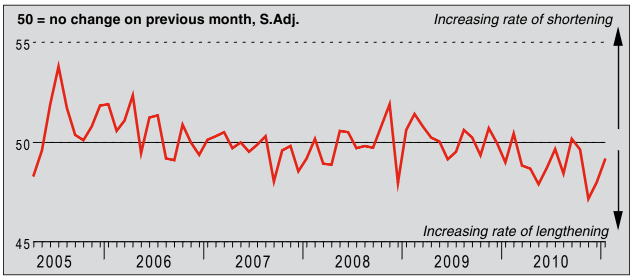


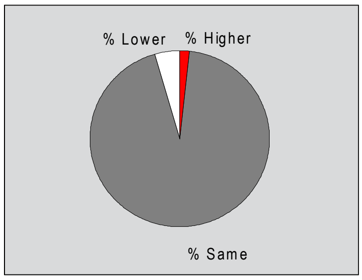


Input costs faced by manufacturers in India increased substantially during January, with rises now seen in each of the last twenty-two months. Moreover, the rate of input price inflation accelerated for a seventh successive month to the second-fastest in the series history. Approximately 32% of panellists indicated that input costs were higher in the latest survey period, generally attributing inflation to increased raw material prices.

Suppliers' Delivery Times Index

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

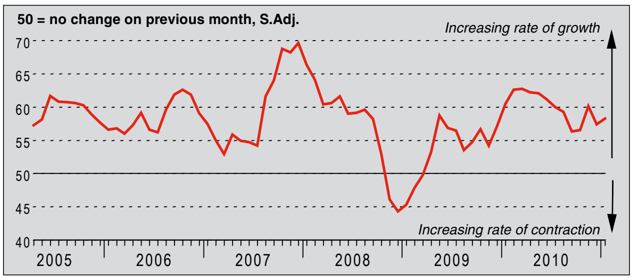


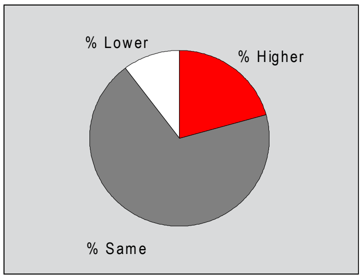


Indian manufacturers reported a marginal lengthening in suppliers' delivery times during January. This was attributed to a further rise in purchasing activity, with many panellists commenting that raw materials were in short supply. Vendor performance has now deteriorated in each of the last four months, but the latest worsening in lead times was the second-weakest in that period. Reflective of the marginal extension in delivery times, the vast majority of panellists (approximately 94%) indicated that vendor performance was unchanged on the month.

Quantity of Purchases Index

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

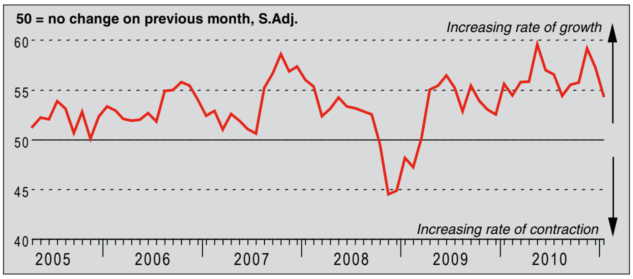


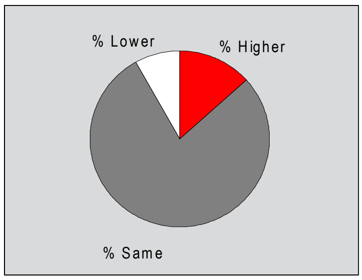


Purchasing activity at manufacturers in India increased markedly during January. The rate at which input buying rose accelerated marginally since December, and was broadly in line with the long-run average for the series. Anecdotal evidence suggested that substantial growth of incoming new business, and subsequently output requirements, supported the latest rise in purchasing activity.

Stocks of Purchases Index

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





January data signalled a marked rise in stocks of purchases at manufacturing companies in India. The latest increase in pre-production inventories was the slowest in five months, but remained above the historical average for the series. Panellists reporting a rise in stocks of purchases attributed this to an increase in input buying to fulfil higher output requirements. However, some companies noted that pre-production inventories had been reduced due to the short supply of certain items.

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