

HSBC India Manufacturing PMI™

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

Summary

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.

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.

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).

Comment

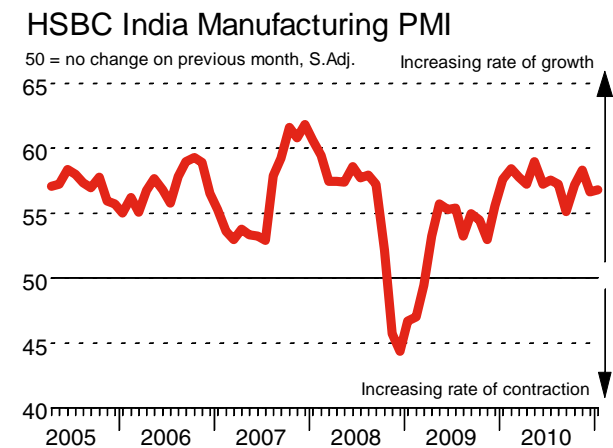
Commenting on the India Manufacturing PMI survey, Leif Eskesen, Chief Economist for India & ASEAN at HSBC said:

"The manufacturing sector started the year out in style, with the growth momentum picking up a tad led by higher output as order books continue to thicken, reflecting, in particular, strong demand from domestic clients. The strong demand is, however, piling up backlog of works, albeit at a slightly slower pace, and the tight capacity yet again pushed up input and output prices at an accelerated pace."

Key points

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

Historical Overview



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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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