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HSBC India Manufacturing PMI™

Strong growth of Indian manufacturing output recorded in February. Cost pressures intensified.

Key findings:

- New export orders rose at fastest pace in three months.
- Staffing levels down slightly for second month running.
- Input cost inflation fastest in series history.

February survey data, compiled by Markit for HSBC, signalled a marked improvement of business conditions in the Indian manufacturing sector. A substantial rise in new orders supported a further expansion of output, which was the strongest in three months. Nonetheless, backlogs rose again, amid some reports of delays in production and difficulties in filling vacant positions. Meanwhile, input costs rose at a record pace, but output price inflation eased slightly.

The seasonally adjusted HSBC Purchasing Managers' Index™ (PMI™) – a headline index designed to measure the overall health of the manufacturing sector – posted 57.9 in February, up from January's 56.8. The latest reading indicated a marked expansion of the Indian manufacturing sector, which was the strongest in three months and above the long-run series average (56.1).

New orders received by manufacturers in India increased substantially in February. Moreover, the rate of growth accelerated for a second successive month. Panellists attributed the latest rise in new business to ongoing improvements in market conditions, increased marketing and good quality goods. New export orders also expanded in February and regained momentum following January's three-month growth low.

The rise in overall new business supported further growth of output at a rate that was broadly similar to that recorded in January. However, a further rise in backlogs of work suggested that pressure on production capacity remained. Whilst the

extent to which outstanding business accumulated weakened, the period of growth now stretches to eleven months. A number of panellists commented that shortages of labour contributed to production delays.

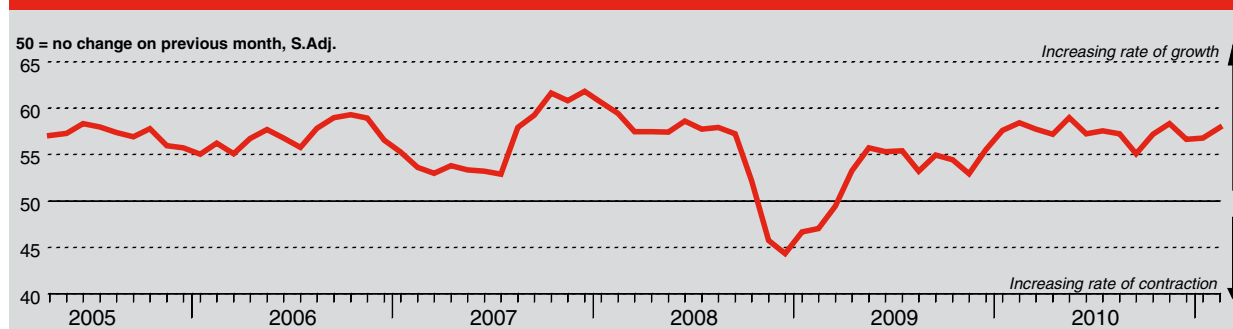
Stocks of finished goods fell during the month, albeit only slightly. Where a reduction was indicated, respondents noted that existing inventories were partially used to meet new order obligations.

Despite sustained growth of both new orders and output, employment in the Indian manufacturing sector decreased again in February. A shortage of labour to fill positions was cited as the primary contributor to the decline in staffing levels.

Reflective of higher production requirements, February data signalled a steep increase in purchasing activity. Moreover, the latest rise in input buying was the strongest in eight months. Subsequently, suppliers' delivery times lengthened again, with shortages of materials compounding capacity constraints at vendors.

Input prices faced by manufacturers in India increased sharply in February. The rate of input cost inflation accelerated for an eighth successive month to the fastest since data collection began in 2005. Higher raw material prices, particularly for metals, were the main drivers of the latest rise in costs. Output prices also increased, but at a slightly weaker rate than in January. Nonetheless, the rise in charges was strong in the context of historical data.

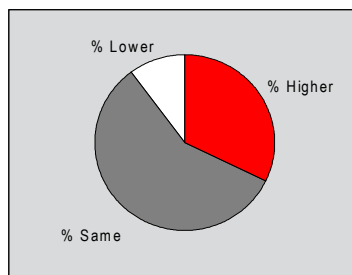
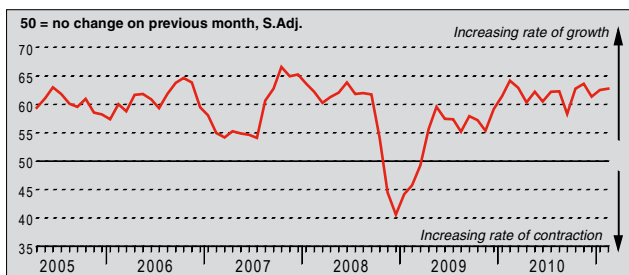
HSBC India Purchasing Managers' Index™ (PMI™)



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

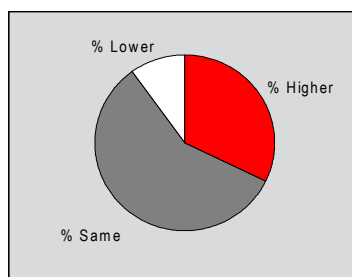
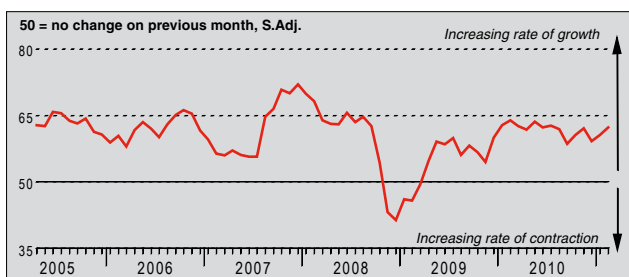
Q. Please compare your production/output this month with the situation one month ago.



Indian manufacturers reported a substantial rise in output during February, extending the sequence of sustained growth to twenty-three months. Approximately 32% of panellists indicated that production at their factories had increased since January, attributing this to a further expansion of new order volumes. The rate at which output grew was fractionally higher than indicated in the previous survey period, and strong in the context of historical data.

New Orders Index

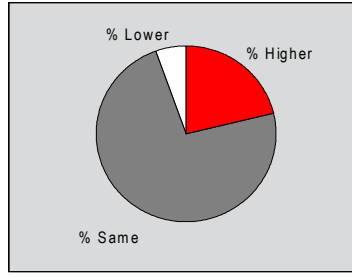
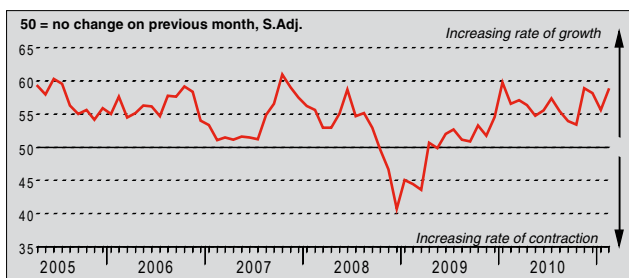
Q. Please compare the level of new orders received (India and export) this month with the situation one month ago.



February data signalled a substantial increase in new orders received by manufacturers in India. Moreover, the rate of growth accelerated since January to a seven-month high. Anecdotal evidence suggested that a general strengthening in market conditions had helped to boost demand, alongside increased marketing and the general quality of products available. Incoming new business has now risen in each of the last twenty-three months.

New Export Orders Index

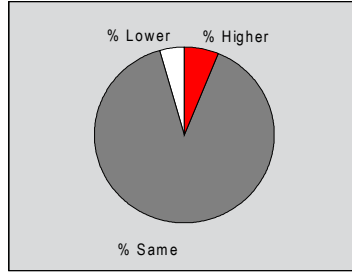
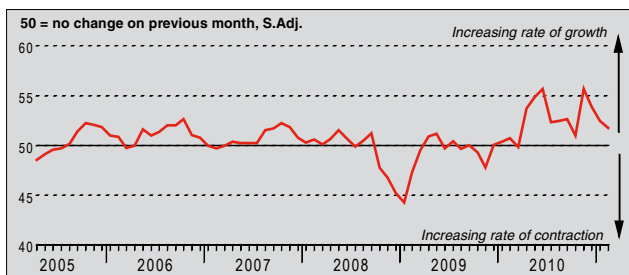
Q. Please compare the level of new export orders received this month with the situation of one month ago.



New export orders received by Indian manufacturers were reported to have increased markedly in February. With approximately 21% of panellists indicating that new export business was higher than in the previous month, the overall expansion was the strongest since November 2010 and comfortably above the long-run trend. The latest increase in new export orders, which was the twenty-first in as many months, was supported by strengthening economic conditions in overseas markets.

Backlogs of Work Index

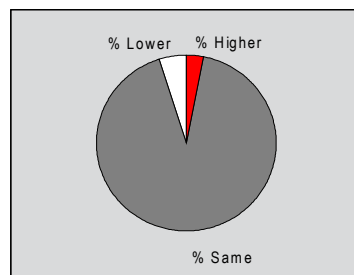
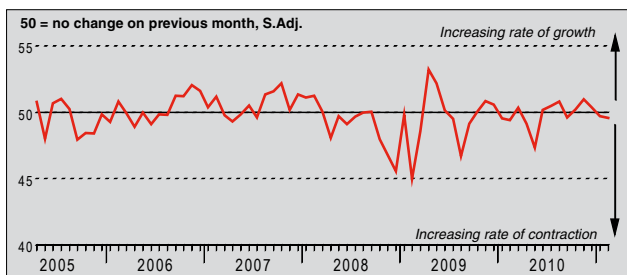
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Backlogs of work at manufacturers in India increased during February for an eleventh consecutive month. The extent to which outstanding business accumulated eased for a third period running, but was above the long-run series average. Panellists reporting a rise in work-in-hand attributed this to higher new order volumes suggesting that, despite substantial growth of output, pressures on production capacity remained. A number of companies commented that labour shortages had contributed to production delays.

Stocks of Finished Goods Index

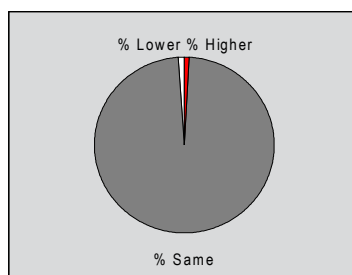
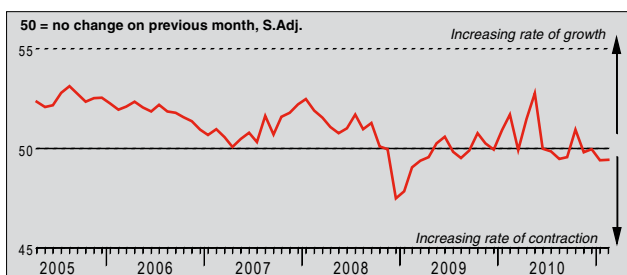
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Stocks of finished goods held at manufacturers in India fell slightly during February. This was the second successive month where post-production inventories decreased, with the rate of decline broadly similar. Anecdotal evidence suggested that companies had partially utilised existing inventories in order to meet new order obligations. This was in part due to higher raw material prices, but also due to further rises in backlogs. However, the majority of respondents (92%) noted that finished goods stocks were unchanged since January.

Employment Index

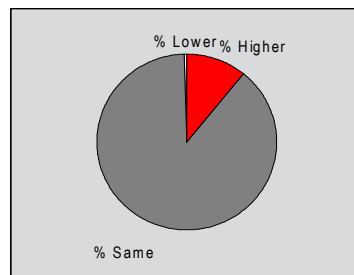
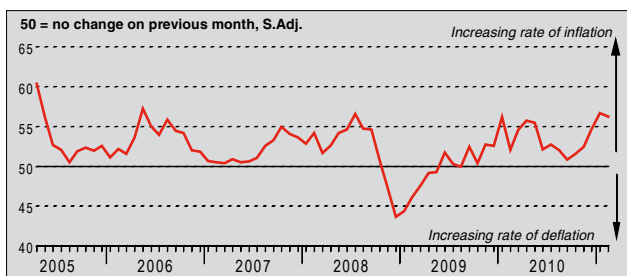
Q. Please compare the level of employment at your unit with the situation one month ago.



February data signalled a marginal decline of employment in the Indian manufacturing sector. In six of the last eight months a reduction in staffing levels has been indicated, but in line with the marginal nature of the current decrease, the vast majority of panellists (98%) noted that employment was unchanged since January. Where a reduction in staffing levels was indicated, this was attributed to a lack of available personnel to fill vacated positions.

Output Prices Index

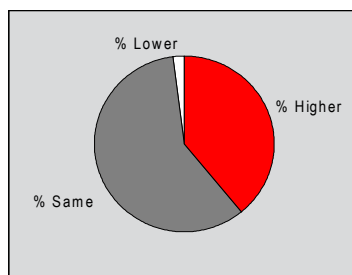
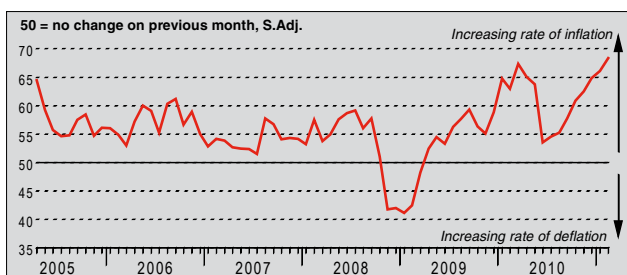
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Indian manufacturers reported a marked rise in their output prices during February. Higher raw material prices were predominately cited as the main driver of the increase in charges, with improved demand for goods reflected in the historically strong rate of output price inflation. Nonetheless, the latest rise in charges was slightly weaker than that indicated in January.

Input Prices Index

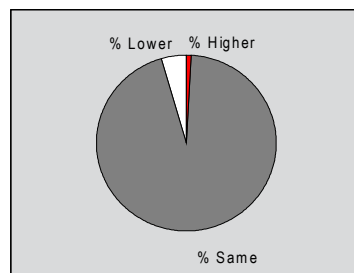
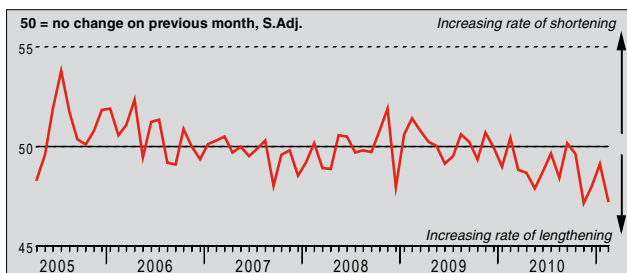
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Input prices faced by manufacturers in India increased substantially during February. Moreover, the rate of input cost inflation accelerated from January's ten-month high to the fastest in the series history. Exactly 39% of panellists recorded a rise in costs compared to the previous month, commenting that higher raw material prices, particularly for metals, had driven cost inflation. Input prices have now increased in each survey period since April 2009.

Suppliers' Delivery Times Index

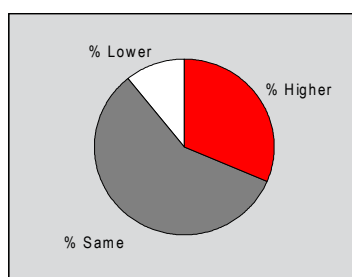
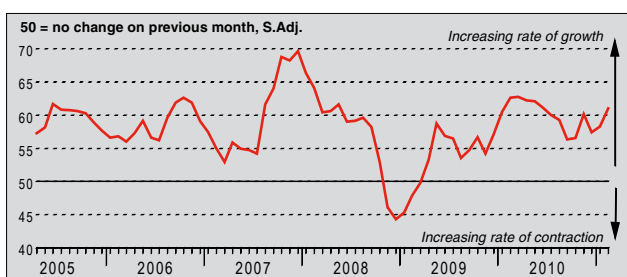
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Indian manufacturers reported a modest lengthening of suppliers' delivery times in February. Deteriorating vendor performance has been indicated for five successive months, with the extent of the latest delays the second-strongest in the series history. Anecdotal evidence suggested that increased input buying and shortages of materials at suppliers had led to the latest lengthening in lead times.

Quantity of Purchases Index

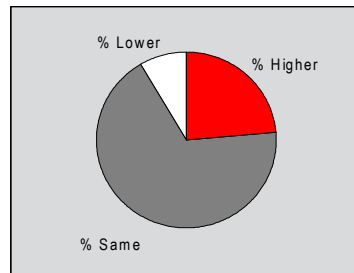
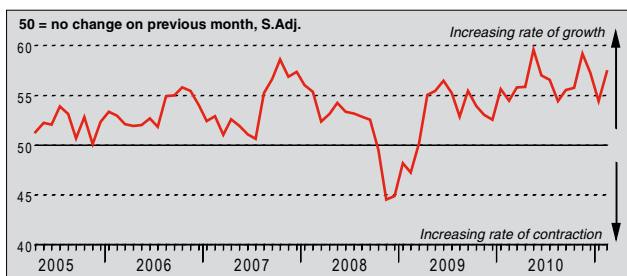
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



A substantial rise in purchasing activity was reported in February, with the pace of increase the strongest since June 2010 and above the long-run series average. Approximately 31% of panellists indicated that they had raised their purchasing volumes, citing further growth of both new orders and output requirements as the main drivers. Input buying has now increased in each of the last twenty-three months.

Stocks of Purchases Index

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



February data signalled a marked rise in stocks of purchases held at factories in India, with increases now recorded over a two-year period. Anecdotal evidence suggested that companies were aiming to boost inventories in line with sustained new order growth and higher production requirements. The latest rise in purchase stocks was the strongest in three months, and above the long-run series average.

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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