HSBC Purchasing Managers' Index™ Press Release
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compiled by markit

HSBC India Manufacturing PMI™

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

Summary

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. Subsequently, suppliers' delivery times lengthened again.

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.

Comment

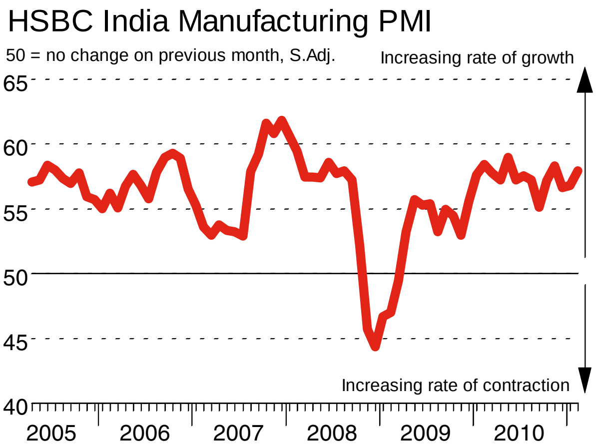
Commenting on the India Manufacturing PMI survey, Leif Eskesen, Chief Economist for India & ASEAN at HSBC said:

"The momentum in India's manufacturing sector strengthened yet again in February, continuing the good start to the year. Output growth is holding up and the inflow of new orders is accelerating, holding promise of a strong momentum in output in the months ahead. However, manufacturer's are facing ever steeper increases in input costs reflecting the tightness of labour markets and rising material costs, which will continue to add upward pressures on output prices. In turn, this calls for further tightening of macroeconomic policies to tame the growing inflation pressures."

Key points

- 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.

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.

HSBC:

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