

Embargoed until: 10:30 (MUMBAI), 1 April 2011

HSBC India Manufacturing PMI™

Marked growth of Indian manufacturing output sustained in March.

Key findings:

- New order growth fastest since August 2008.
- Capacity constraints highlighted by a marked rise in backlogs of work.
- Inflationary pressures intensified.

March survey data, compiled by Markit for HSBC, signalled a marked strengthening of the Indian manufacturing sector. The rate of improvement was unchanged from February's three-month high. A further increase in new orders supported a rise in output. However, outstanding business continued to accumulate, indicating pressure on operating capacity. Nonetheless, staffing levels continued to fall, as firms were unable to source sufficient labour. Meanwhile, the latest increase in costs surpassed last month's series high, and drove a marked rise in charges.

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 March, unchanged since February. The latest reading indicated a marked strengthening of business conditions in the Indian manufacturing sector, that remained above the long-run trend.

Indian manufacturers reported a substantial increase in new business received during March. Moreover, the rate of new order growth accelerated to a thirty-one month high. Panellists commented that the high quality of products and ongoing improvements in general economic conditions had helped to boost new work intakes. In contrast, March's rise in new export business was marginally slower than in the previous survey period. Nonetheless, the expansion remained strong in the context of historical data.

The sharp growth of overall new orders supported a further

increase in output. However, the rate of output growth was broadly in line with that indicated in February. Subsequently, backlogs of work rose again, and at the fastest rate in four months. Anecdotal evidence suggested that shortages of materials and manpower also contributed to the accumulation of outstanding business.

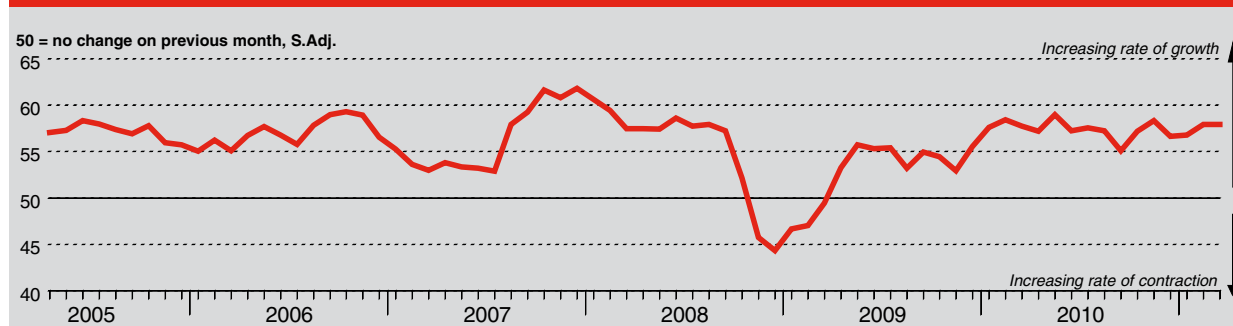
March data signalled a marginal rise in stocks of finished goods at factories in India. Where an increase in post-production inventories was indicated, this was attributed to strong output growth.

Employment in the Indian manufacturing sector fell for a third consecutive month in March, as manufacturers continued to struggle to fill vacant positions.

Purchasing activity rose substantially during March, reflective of the sustained expansions of new orders and output. Moreover, the increase in input buying was the fastest since February 2008. Subsequently, stocks of purchases also rose. Suppliers' delivery times shortened fractionally during March, but the majority of panellists indicated that lead times were unchanged since February.

Inflationary pressures intensified during March, as both input and output prices rose at faster rates than in the previous survey period. Input cost inflation was the strongest in the series history, driven by higher raw material prices. This led to a further marked rise in charges, which was the second-fastest in the history of the series.

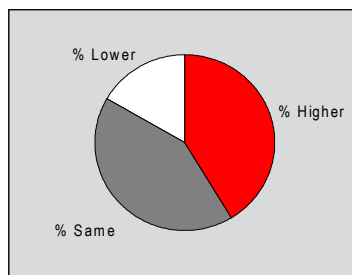
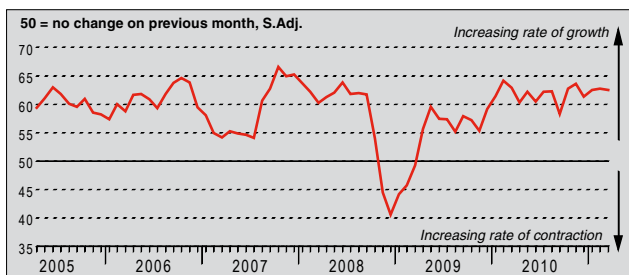
HSBC India Purchasing Managers' Index™ (PMI™)



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

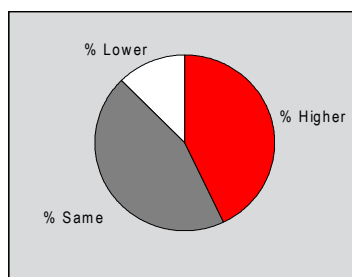
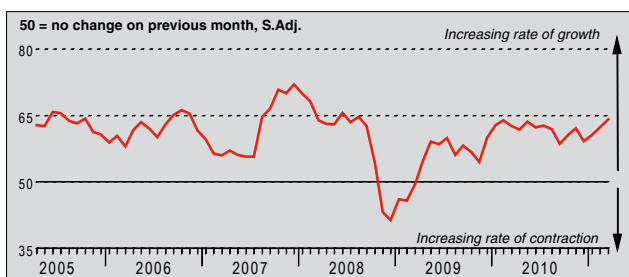
Q. Please compare your production/output this month with the situation one month ago.



Indian manufacturing output rose substantial during March, extending the sequence of sustained growth to two years. Approximately 41% of panellists indicated that production at their units had increased since February, attributing this to a further expansion of incoming new business and a general improvement in market conditions. The rate of output growth has been broadly unchanged over the last three survey periods, and above the long-run series average.

New Orders Index

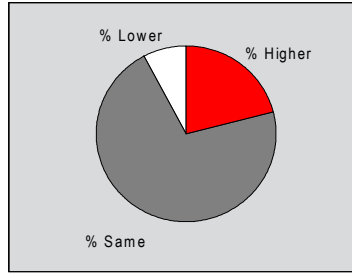
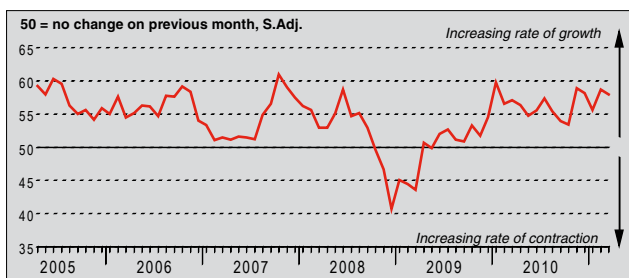
Q. Please compare the level of new orders received (India and export) this month with the situation one month ago.



March data signalled a substantial increase in new orders received by manufacturers in India. Moreover, the rate of new business growth accelerated for a third successive month to the fastest since August 2008. Anecdotal evidence suggested that high quality products and improving economic conditions had led to a general strengthening of demand. Overall, new orders have risen in each month since April 2009.

New Export Orders Index

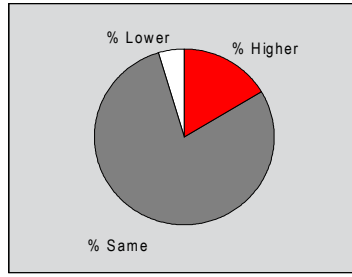
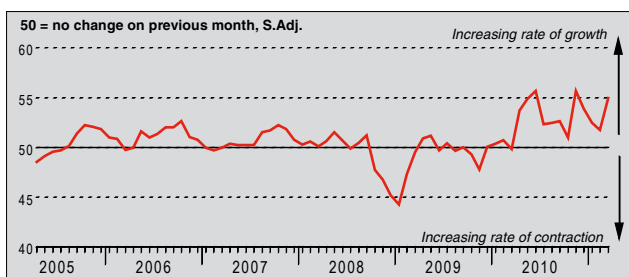
Q. Please compare the level of new export orders received this month with the situation of one month ago.



New export orders increased markedly during March, with approximately 21% of respondents indicating a higher level of new business received from export markets since February. The latest expansion in new work intakes from overseas, which was the twenty-second in as many months, slowed from February's three-month high but remained strong in the context of historical data.

Backlogs of Work Index

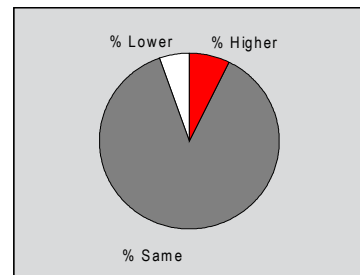
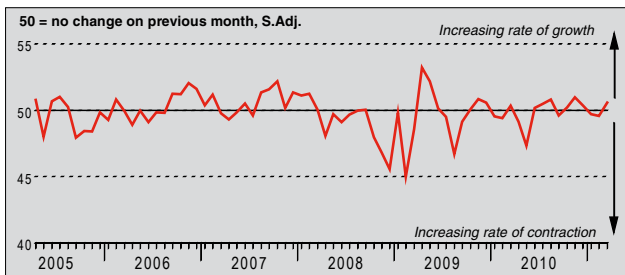
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Backlogs of work at factories in India were reported to have increased markedly during March. Moreover, the rate of accumulation accelerated to a four-month high and was the third-fastest in the series history. Panellists commented that sustained growth of new work intakes and shortages of manpower and raw materials led to the latest increase in outstanding business. Backlogs have now risen for twelve successive months.

Stocks of Finished Goods Index

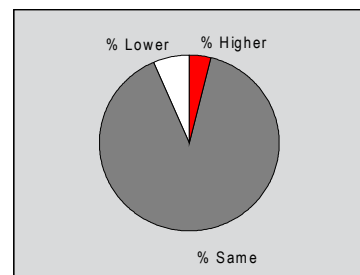
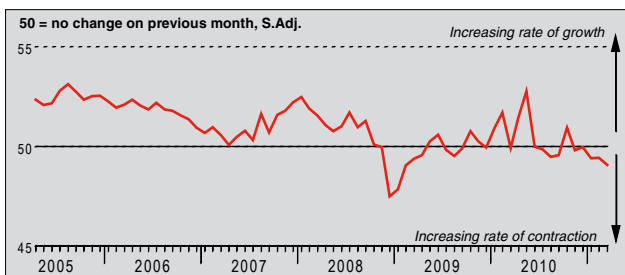
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



March data signalled a slight rise in stocks of finished goods held at manufacturers in India. This was in contrast to the previous two survey periods where marginal reductions in inventories were reported. Panellists indicating an accumulation of finished goods stocks attributed this to higher output and new order requirements. However, the majority of respondents (approximately 87%) indicated that post-production inventories were unchanged since February.

Employment Index

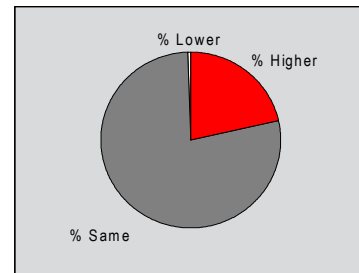
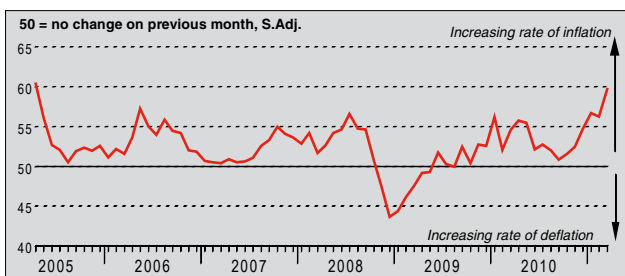
Q. Please compare the level of employment at your unit with the situation one month ago.



Employment in the Indian manufacturing sector fell during March. This was the third successive month where a reduction in staffing levels has been indicated and, whilst the extent of job cuts was marginal, the seasonally adjusted Employment Index was below its long-run average. Anecdotal evidence suggested that a lack of available labour to fill vacant positions had resulted in the latest decline in employment, despite the continued growth of new orders and output.

Output Prices Index

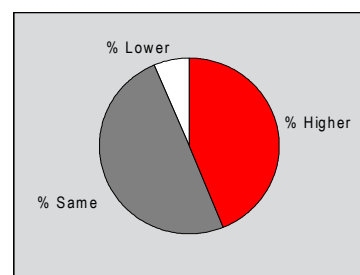
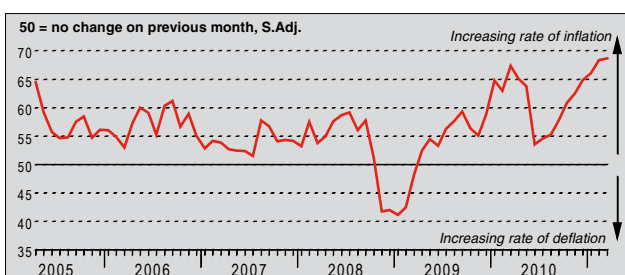
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Indian manufacturers reported a marked rise in their charges during March. Moreover, the rate of output price inflation accelerated to the second-strongest in the series history. Approximately 22% of panellists indicated that they had increased their charges during the month, citing a further rise in input costs as the main driver of this. Overall, output prices have increased in each month since September 2009.

Input Prices Index

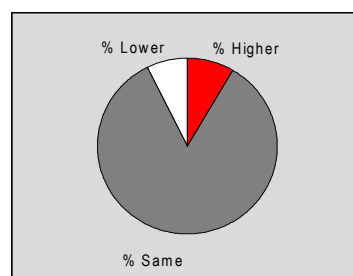
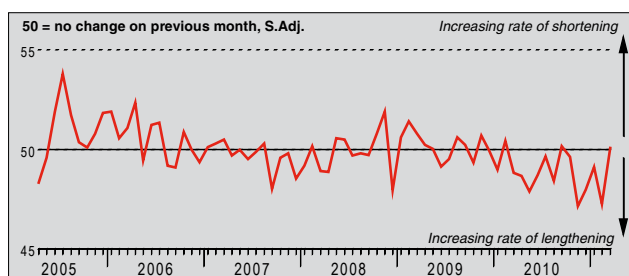
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Input prices faced by manufacturers in India increased substantially during March, driven by a further rise in raw material costs. With approximately 44% of panellists noting higher costs compared to February, the rate of input price inflation accelerated for a ninth successive month and was the fastest in the series history. Rising input costs have been recorded for twenty-four months running.

Suppliers' Delivery Times Index

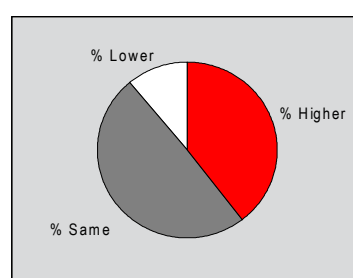
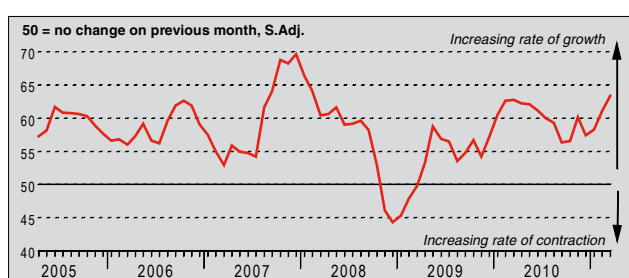
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Indian manufacturers reported a shortening of lead times in March, although it was only negligible. This ended a five-month period of deteriorating vendor performance. Panellists indicating an improvement in delivery times commented that suppliers were aiming to fulfil orders quickly. In contrast, other respondents noted that shortages of, and increased demand for, materials had delayed deliveries. The majority of respondents (approximately 84%) commented that vendor performance was unchanged since February.

Quantity of Purchases Index

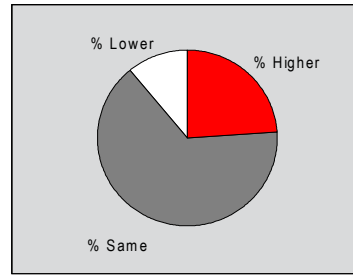
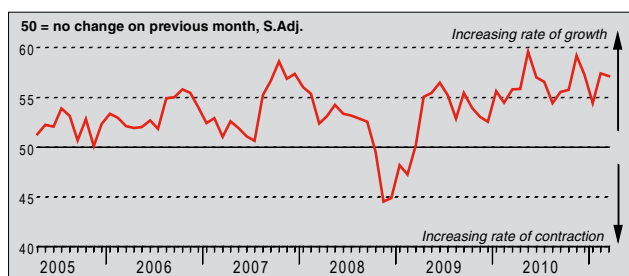
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Purchasing activity at manufacturers in India increased substantially during March, reflective of further growth of both new orders and output requirements. Moreover, the extent to which input buying rose was the fastest since February 2008, and notably strong in the context of historical data. Purchasing activity has increased in each month since April 2009.

Stocks of Purchases Index

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



March data signalled a marked rise in stocks of purchases at manufacturing companies in India, extending the sequence of sustained growth to twenty-five months. Panellists commented that the accumulation of pre-production inventories reflected higher output requirements and the sustained expansion of new orders. The latest increase in stocks of purchases was slightly weaker than that reported in February, but remained well above the long-run trend.

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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