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HSBC India Manufacturing PMI™

Indian manufacturing sector output growth slowed for second successive month in June to the weakest since September 2010.

Key findings:

- Expansion of new orders remained sharp, despite easing since May.
- Labour and power shortages impacted negatively on production, with backlogs rising.
- Input price inflation accelerated, but firms' pricing power restricted by strong competition.

June survey data, compiled by Markit for HSBC, signalled a marked strengthening of business conditions in the Indian manufacturing sector. However, the rate of growth slowed for a second successive month, as expansions of both new orders and output eased. Nonetheless, indications of pressure on production capacity remained as backlogs continued to rise. Meanwhile, input costs rose sharply, driven by higher raw material prices. Charges also increased, but to a lesser extent than in May.

The seasonally adjusted HSBC *Purchasing Managers' Index™* (PMI™) – a headline index designed to measure the overall health of the manufacturing sector – posted 55.3 in June, down from May's 57.5 to a nine-month low. While the latest strengthening of business conditions was weaker than the long-run trend, it was nonetheless marked.

New business received by manufacturers in India increased substantially during June, extending the sequence of sustained growth to twenty-seven months. However, the latest expansion was the slowest seen during 2011. New export orders rose solidly, but the rate of increase was the weakest since November 2009.

Reflective of the slowdown in overall new order growth, the latest rise in output was also lower than in the previous survey period. However, reports of labour shortages and power cuts impacted negatively on production. Subsequently, backlogs of

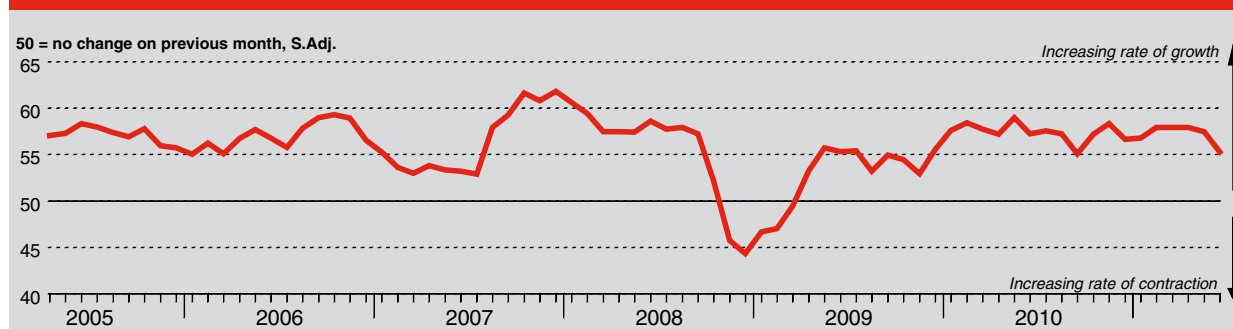
work increased for a fifteenth successive month. While the latest accumulation eased since May, it was stronger than the historical average. A slight rise in finished goods stocks was indicated in June, although the majority of panellists noted no change in levels of post-production inventories.

Despite pressure on operating capacity, employment in the Indian manufacturing sector fell in June. Anecdotal evidence suggested that this was reflective of a lack of available labour to fill positions as vacancies arose.

A substantial increase in purchasing activity was recorded in June. However, the extent of the rise was weaker than in May as many companies commented that high raw material costs limited their purchasing power. Suppliers' delivery times continued to lengthen, with anecdotal evidence suggesting that vendor performance was negatively impacted by higher levels of input buying, alongside shortages of materials, labour and power.

June data signalled a substantial rise in input costs faced by Indian manufacturers that was driven by higher prices for raw materials. Input price inflation has been recorded since April 2009, with the latest increase in costs sharp in the context of historical data. Output prices also rose at an above average rate, but the latest increase slowed to the weakest in seven months as pricing power was restricted by strong competition for new business.

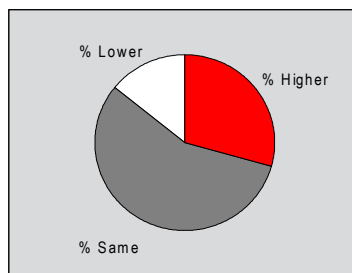
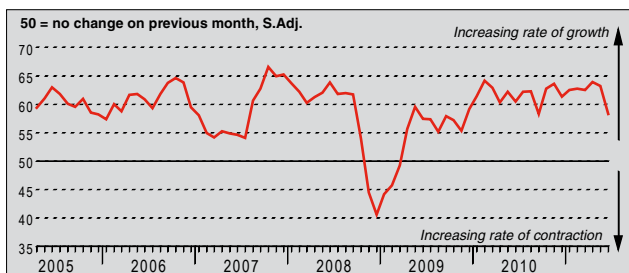
HSBC India *Purchasing Managers' Index™* (PMI™)



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. *Purchasing Managers' Index™* and *PMI™* are trade marks of Markit Economics Limited, HSBC use the above marks under licence. Markit and the Markit logo are registered trade marks of Markit Group Limited.

Output Index

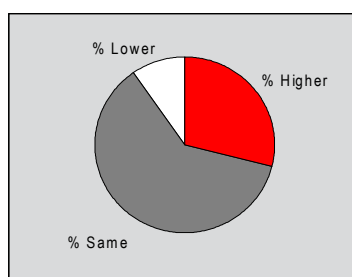
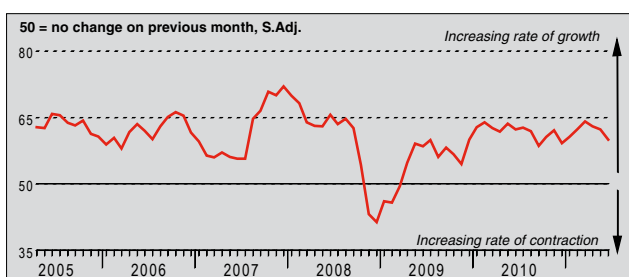
Q. Please compare your production/output this month with the situation one month ago.



June data signalled a marked rise in output at manufacturers in India, extending the sequence of sustained growth to twenty-seven months. Panellists commented that the latest increase in production reflected a further rise in incoming new business. However, the rate of expansion slowed for a second successive month to the weakest recorded since last September, and was below the long-run series average. This largely reflected weaker growth of new orders, but also labour and power shortages.

New Orders Index

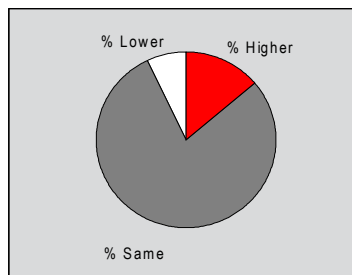
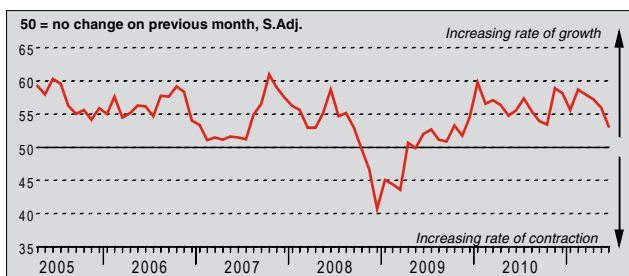
Q. Please compare the level of new orders received (India and export) this month with the situation one month ago.



Manufacturers in India reported a substantial rise in new business received during June, attributing this to ongoing improvements in general market conditions and demand. However, with 29% of panellists noting that their new order volumes were higher than in May, the rate of growth slowed to a six-month low. Nonetheless, new business has now expanded in each survey period since April 2009.

New Export Orders Index

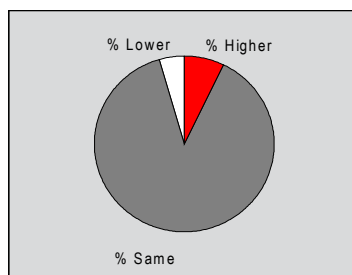
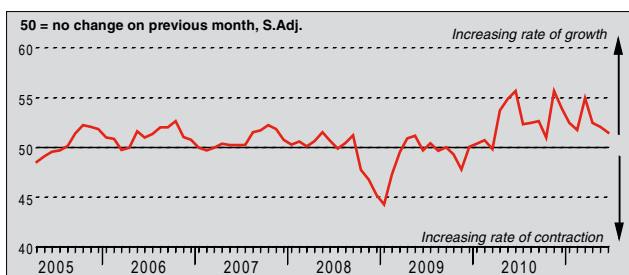
Q. Please compare the level of new export orders received this month with the situation of one month ago.



Indian manufacturers reported a solid rise in new business received from export markets during June, with growth now sustained in each month since June 2009. Approximately 14% of respondents recorded an increase in new export orders, but the latest expansion slowed markedly and was the weakest for over a year-and-a-half. Respondents noted that international market conditions were not as strong as in recent months.

Backlogs of Work Index

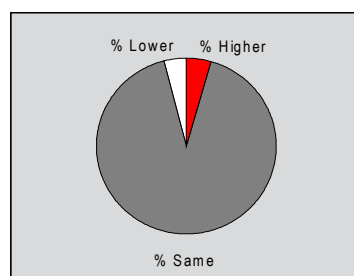
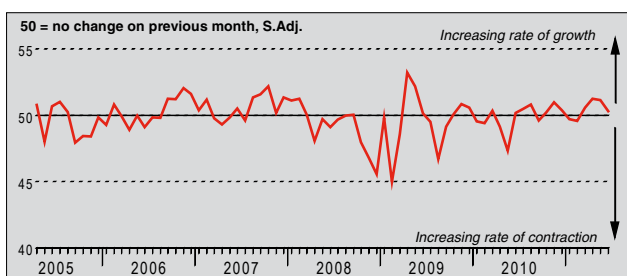
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Backlogs of work at factories in India increased modestly during June. This was the fifteenth month running where an accumulation of outstanding business was reported and, while the latest rise was the weakest since October 2010, it was above the long-run trend. Anecdotal evidence suggested that further growth of new business, alongside labour and power shortages, had led to the latest increase in backlogs of work.

Stocks of Finished Goods Index

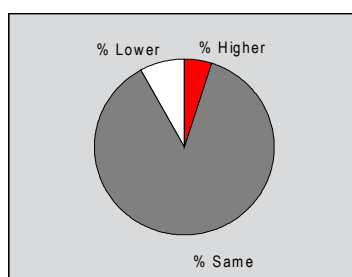
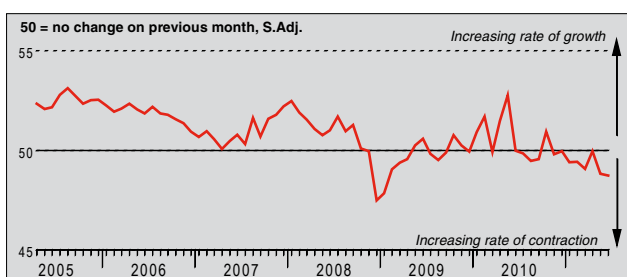
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Stocks of finished goods held at manufacturers in India increased for a fourth successive month in June. However, the rate of accumulation was only slight, and the weakest in that period. Where a rise in post-production inventories was indicated, this was attributed to high levels of output. However, the majority of panellists (approximately 92%) noted that there was no change in their levels of finished goods stocks.

Employment Index

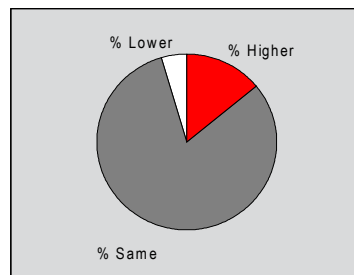
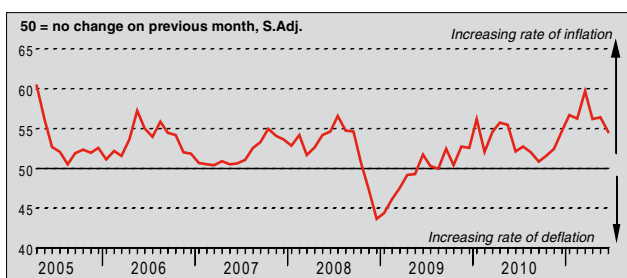
Q. Please compare the level of employment at your unit with the situation one month ago.



Employment in the Indian manufacturing sector fell moderately during June, with job cuts now reported in five of the last six months. Panellists commented that, while sustained growth of both new orders and output requirements had led to the need to increase capacity, this was offset by shortages of suitable labour. The majority of respondents (87%) noted that staffing levels at their factories were unchanged in the month.

Output Prices Index

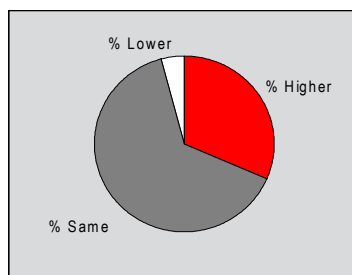
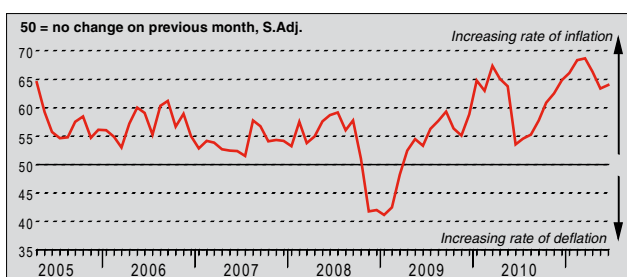
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Indian manufacturers reported a marked rise in their prices charged during June, attributing this to a further increase in input costs. The rate of output price inflation slowed again from March's near-survey high, but remained strong in the context of historical data. Panellists commented that strong competition for new business had prevented a sharper rise in charges. Output price inflation has now been recorded since September 2009.

Input Prices Index

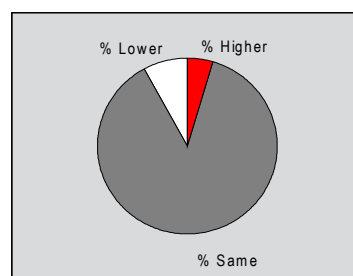
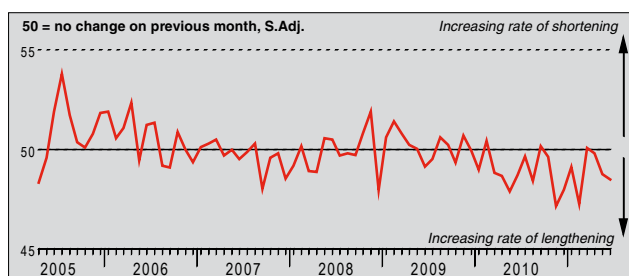
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



June data signalled a substantial rise in input prices faced by manufacturers in India, with higher costs now recorded for twenty-seven months running. The seasonally adjusted Input Prices Index rose slightly since May, remaining markedly above the long-run series trend, and was only around five points lower than the survey high recorded in March. Anecdotal evidence suggested that an increase in raw material costs had been the main contributor to the latest rise in input prices.

Suppliers' Delivery Times Index

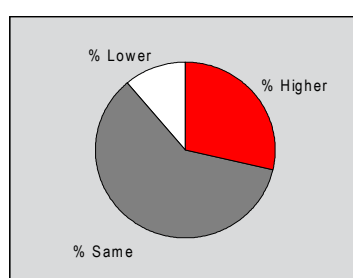
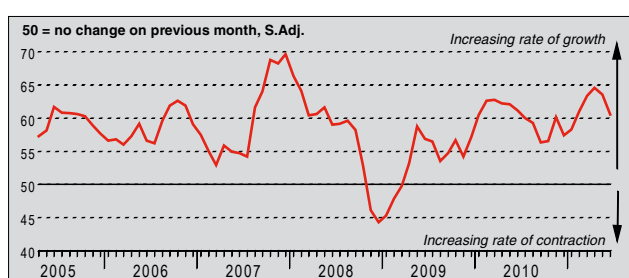
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Indian manufacturers reported a modest lengthening of suppliers' delivery times during May. A deterioration in vendor performance has been indicated in each of the last three months, with the extent of the latest delays the sharpest in that period. Panellists noting a lengthening in lead times commented that vendors were impacted by power cuts and shortages of raw materials and labour.

Quantity of Purchases Index

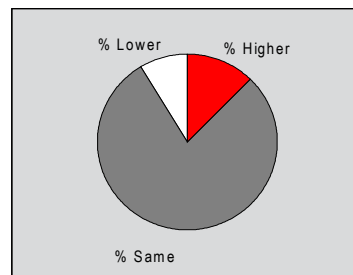
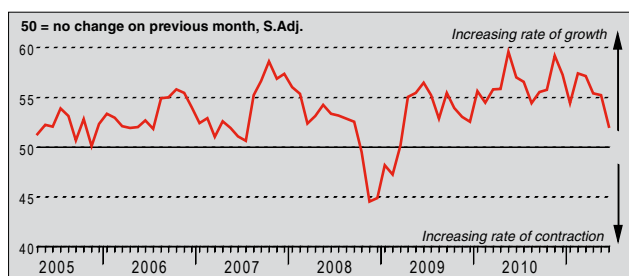
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Purchasing activity at manufacturers in India increased substantially during June, with growth now recorded in each month since April 2009. The sustained expansion of output requirements was frequently cited as the main driver of higher purchase volumes. However, a further rise in raw material prices limited the extent of the increase in input buying. Subsequently, the rate at which purchasing activity rose slowed for a second month running.

Stocks of Purchases Index

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



June data signalled a modest rise in stocks of purchases held at manufacturers in India. While growth of pre-production inventories has been sustained for twenty-eight months, the latest accumulation was the second weakest in that period. Where a rise in stocks of purchases was reported, this was attributed to higher levels of input buying due to increased production requirements.

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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