HSBC *Purchasing Managers' Index*™ Press Release

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compiled by markit

HSBC India Manufacturing PMI™

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

Summary

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.

Comment

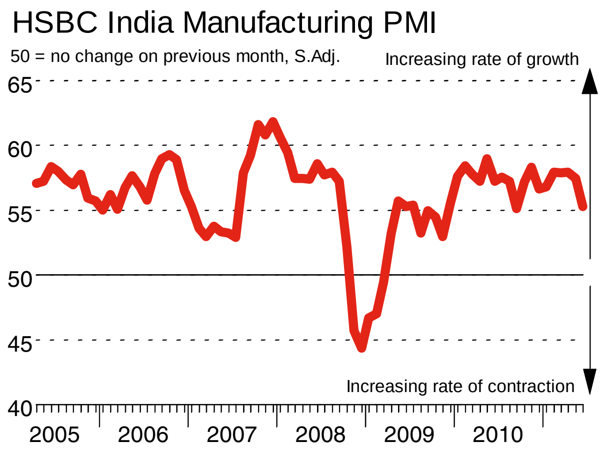
Commenting on the India Manufacturing PMI survey, Leif Eskesen, Chief Economist for India & ASEAN at HSBC said:

"The momentum in the manufacturing sector slowed in June as sequential growth in output and new orders decelerated further. Even with growth easing, tight capacity is still showing up in rising backlogs of work and a lengthening in supplier delivery times. On the inflation front, input costs accelerated, while output prices rose less fast. These numbers confirm that tight capacity and monetary tightening is constraining growth. However, inflation pressures are still firmly in place, calling for further policy rate hikes to anchor inflation expectations."

Key points

- 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.

Historical Overview



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Notes to Editors:

The HSBC India Manufacturing PMI 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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