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## HSBC India Manufacturing PMI™

Growth of Indian manufacturing sector output weakest in 20 months

### Key findings:

- New order expansion eases sharply, leading to slower rise in output
- Staffing levels increase for first time in nine months
- Strong rises in both input and output prices

July survey data, compiled by Markit for HSBC, signalled a further moderation in the strengthening of business conditions in the Indian manufacturing sector. This was primarily driven by a marked slowdown in new order growth, with output subsequently expanding at a weaker rate. In spite of this, backlogs of work rose again, with employment also increasing for the first time since October 2010. Meanwhile, inflationary pressures ticked up in July, with both input and output prices increasing at robust rates.

The seasonally adjusted HSBC *Purchasing Managers' Index™ (PMI™)* – a headline index designed to measure the overall health of the manufacturing sector – posted 53.6 in July, down from June's 55.3 to a 20-month low. The latest fall in the headline index was the third in successive survey periods. Nonetheless, July's reading pointed to a further strengthening of business conditions in the Indian manufacturing sector, with expansion sustained since April 2009.

Indian manufacturers reported a solid rise in new business received during July. However, the rate of growth slowed sharply since June to the weakest in the current 28-month period of expansion. Meanwhile, new export orders contracted for the first time since May 2009, amid softer demand in key export destinations. Underpinned by the rise in overall new business, output expanded, but rate of increase slowed for a third successive month.

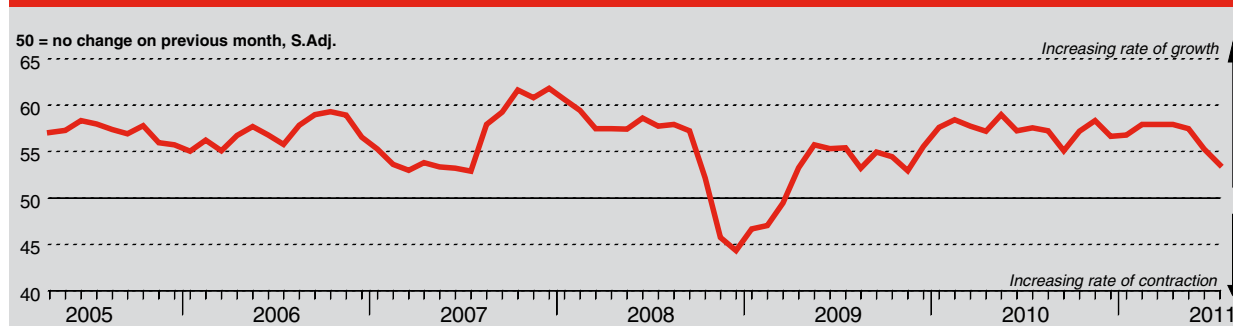
Backlogs of work at manufacturers in India rose for a sixteenth consecutive month in July, albeit only slightly. Panellists commented that the continued rise in new work intakes and ongoing production constraints had led to the latest accumulation of outstanding business. Finished goods stocks rose, but at a modest rate.

July data signalled the first increase in Indian manufacturing sector employment for nine months. Labour shortages have restricted firms' ability to fill vacant positions in recent survey periods. The increase in staffing levels suggested that the lack of suitable workers had alleviated to an extent, but the rate of job creation was modest, with the majority of respondents indicating no change in employment at their units since June.

Growth of purchasing activity slowed in July, reflective of a weaker expansion of output. This led to an easing of pressure on suppliers' operating capacity, and subsequently a shortening of delivery times.

Input prices faced by Indian manufacturers rose substantially in July, driven by higher raw material costs. The rate of input price inflation was slightly faster than that recorded in June. Prices charged also increased more sharply, although growth remained slower than that of costs. The latest rises in both input and output prices remained elevated compared with their respective long-run series averages.

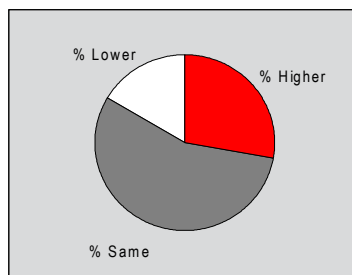
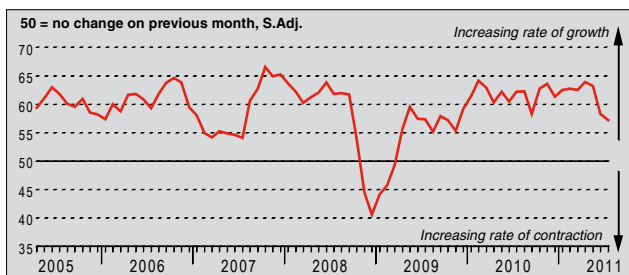
HSBC India *Purchasing Managers' Index™ (PMI™)*



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

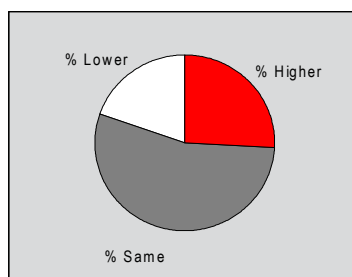
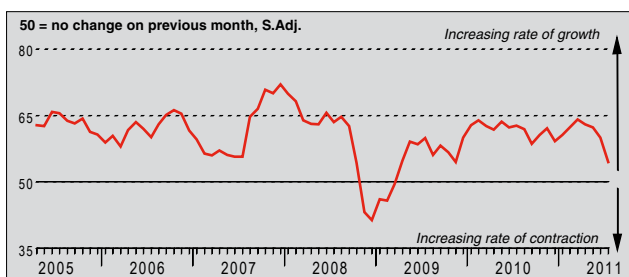
Q. Please compare your production/output this month with the situation one month ago.



July data signalled a marked rise in Indian manufacturing output, extending the sequence of sustained growth to 28 months. Approximately 28% of respondents noted that production at their units was higher than in the previous survey period, attributing this to a further increase in new business. Nonetheless, the rate of output growth slowed for a third month running to the weakest since November 2009, amid an easing in new order expansion.

### New Orders Index

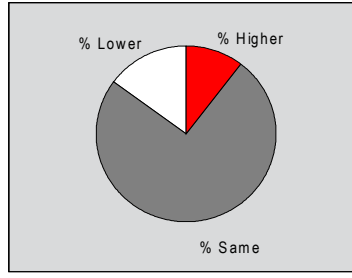
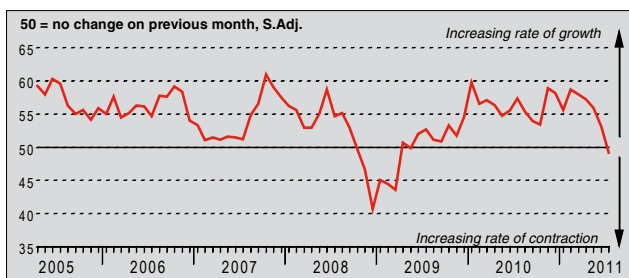
Q. Please compare the level of new orders received (India and export) this month with the situation one month ago.



Indian manufacturers reported a fourth successive monthly slowing in the rate of new business growth in July. The latest increase was the weakest in the current 28-month period of expansion and below the long-run trend. The slower rise in new orders was attributed to a dampening in the improvement in demand. Nonetheless, with approximately 26% of panellists noting a rise in new orders compared to around 20% recording a decline, the rate at which new work intakes expanded remained solid.

### New Export Orders Index

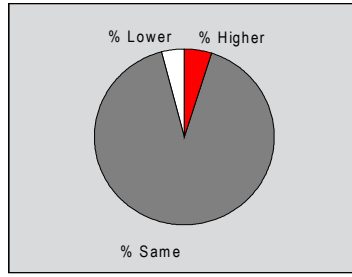
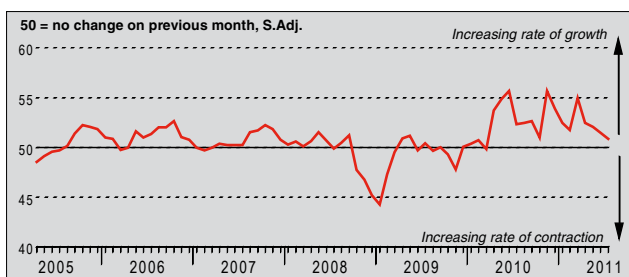
Q. Please compare the level of new export orders received this month with the situation of one month ago.



New export orders received by Indian manufacturers fell in July, ending a 25-month sequence of growth. While the rate of contraction was marginal, the decrease marked only the eighth time that the seasonally adjusted New Export Orders Index has posted below the 50.0 no-change threshold in the series history. Panellists commented that weakened demand had led to the fall in new business received from export markets.

### Backlogs of Work Index

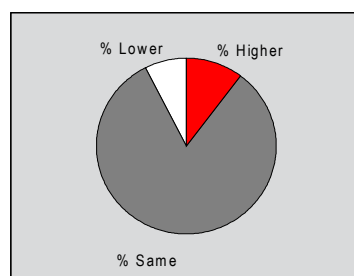
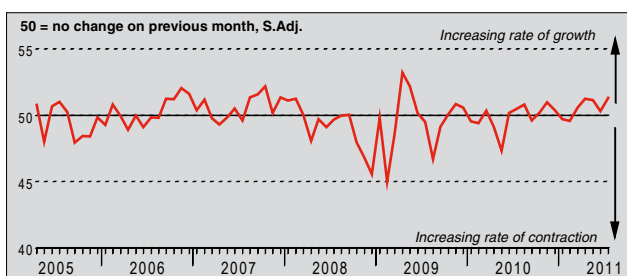
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Backlogs of work held at manufacturers in India increased during July, indicating that pressure on operating capacity persisted. Anecdotal evidence suggested that sustained growth of new business as well as ongoing staff shortages had led to the latest accumulation of work-in-hand. However, the latest rise was marginal and the weakest in the current 16-month period of increases, with 91% of panellists noting that levels of outstanding business were unchanged since June.

### Stocks of Finished Goods Index

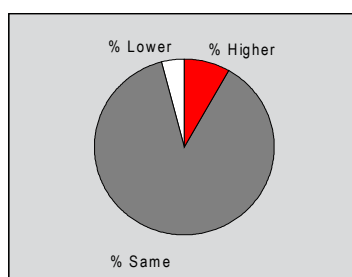
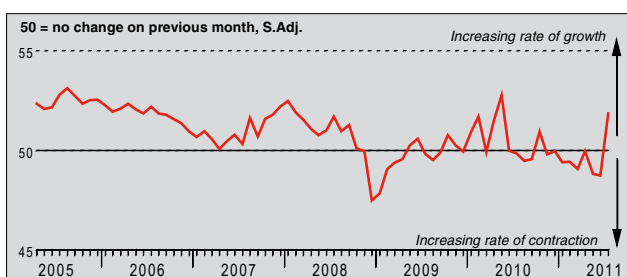
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Indian manufacturers reported a modest rise in stocks of finished goods held at their units in July. The rate of accumulation accelerated since June, with panellists commenting that the increase reflected higher levels of output. Post-production inventories have now risen in each of the last five survey periods.

### Employment Index

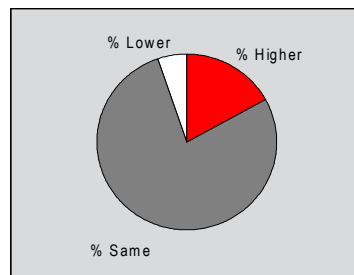
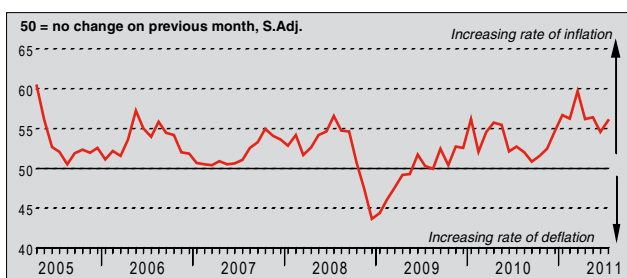
Q. Please compare the level of employment at your unit with the situation one month ago.



July data signalled a modest rise in employment in the Indian manufacturing sector – the first increase in nine months. While output requirements have grown over that period, shortages of available labour prevented many vacant positions from being filled. July data suggested that this situation may have alleviated to a degree as manufacturers were able to increase recruitment modestly to cope with higher workloads and aid business expansion. Nonetheless, the majority of panellists (approximately 88%) indicated that staffing levels were unchanged since June.

### Output Prices Index

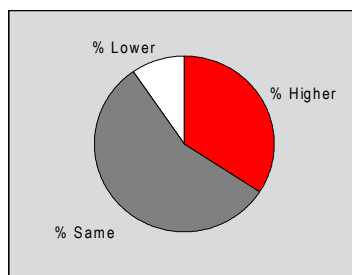
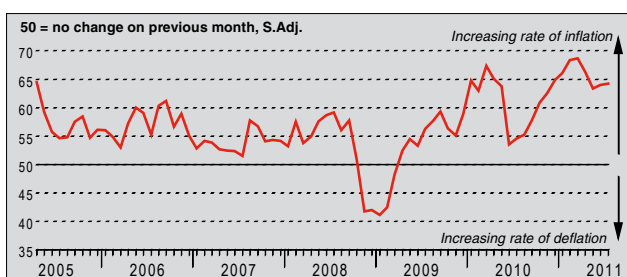
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Prices charged by Indian manufacturers increased markedly during July. Moreover, the rate of output price inflation accelerated since June, and was strong in the context of historical data. Panellists cited a further sharp rise in costs as the main driver of the latest rise in charges, although competition for new business prevented a larger increase. Output prices have now risen in each month since September 2009.

### Input Prices Index

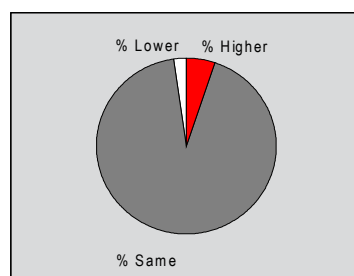
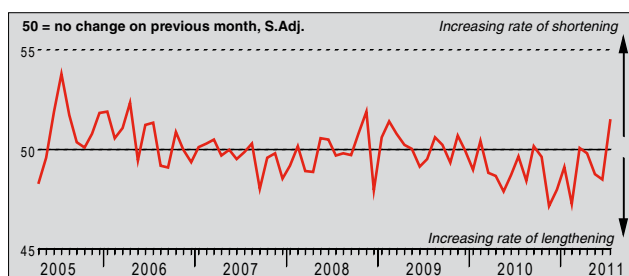
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Indian manufacturers reported a substantial rise in input costs during July, extending the sequence of sustained price inflation to 28 months. The latest increase in costs was slightly faster than seen in June and notably sharper than the long-run trend. Approximately 34% of panellists indicated that input prices were higher compared with June, attributing this to further increases in raw material costs.

## Suppliers' Delivery Times Index

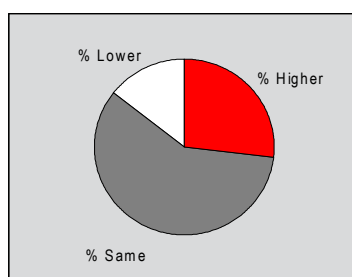
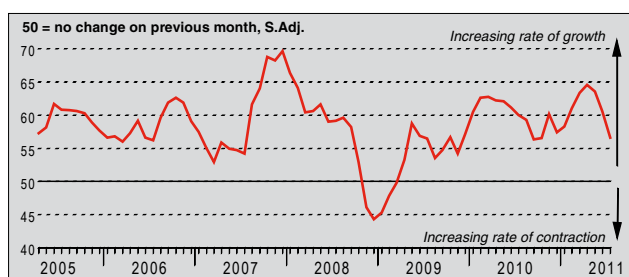
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Indian manufacturers reported a shortening of suppliers' delivery times in July. This was in contrast to the previous three survey periods where lead times lengthened. Anecdotal evidence suggested that a weaker rise in purchasing activity helped to alleviate pressure on operating capacity at suppliers, contributing to the improvement in vendor performance. Nonetheless, the extent to which delivery times shortened was modest, with the majority of panellists (approximately 93%) noting no change from the previous survey period.

## Quantity of Purchases Index

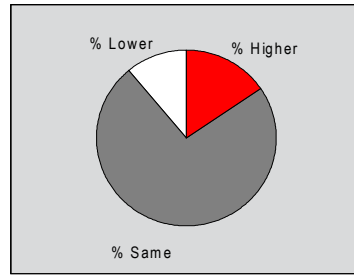
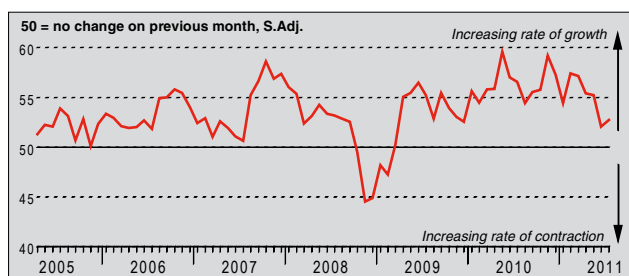
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



July data signalled a marked rise in purchasing activity at manufacturers in India, with increases now recorded in each month since April 2009. Sustained growth of both new orders and output requirements were generally cited as the main drivers of the rise in purchase volumes. Nonetheless, the latest increase was the weakest in nine months, with approximately 27% of panellists noting a rise in input buying compared with around 14% indicating a fall.

## Stocks of Purchases Index

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



Stocks of purchases held by manufacturers in India increased solidly during July. The rate of accumulation was slightly faster than that recorded in June, but remained below the long-run series average. Panellists commented that the rise in pre-production inventories had been limited by slower growth of purchasing activity.

## 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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