HSBC *Purchasing Managers' Index*™ Press Release
Embargoed until: 10:30 (MUMBAI), 1 August 2011

compiled by markit

HSBC India Manufacturing PMI™

Growth of Indian manufacturing sector output weakest in 20 months

Summary

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, led by a softening in new order growth. 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.

Comment

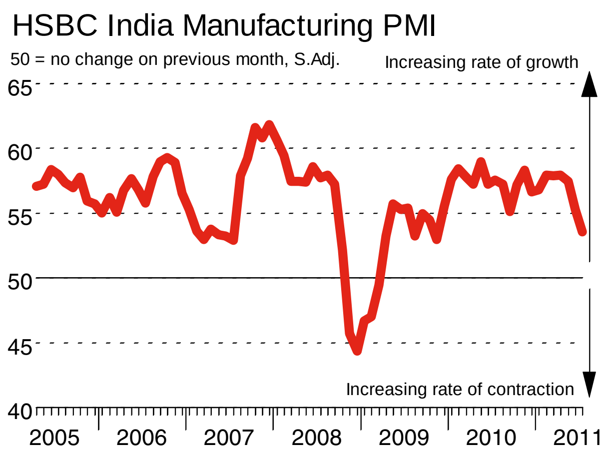
Commenting on the India Manufacturing PMI survey, Leif Eskesen, Chief Economist for India & ASEAN at HSBC said:

"The momentum in the manufacturing sector eased further in July as sequential growth in output and new orders slowed, although employment picked up. In turn, backlogs of work grew less fast and supplier delivery times shortened. On the inflation front, input costs and output prices accelerated. These numbers confirm that inflation pressures remain firmly in place despite the ongoing moderation in growth. The RBI will, therefore, have to maintain its tightening bias for a while still to anchor inflation expectations."

Key points

- 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

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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About Markit:

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About PMIs:

Purchasing Managers' Index™ (PMI™) surveys are now available for 32 countries and also for key regions including the Eurozone. They are the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to www.markit.com/economics.