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HSBC India Manufacturing PMI™

Expansion of Indian manufacturing sector output slows for fourth successive month

Key findings:

- Weaker new order growth led to slower rise in production
- New export business contracts at sharp rate
- Strong increases in both input costs and output prices signalled

August survey data, compiled by Markit for HSBC, signalled a strengthening in the health of the Indian manufacturing sector. However, the rate of improvement moderated for a fourth month running and was only modest. A sharp reduction in new export orders received contributed to a further easing in the increase in overall new business, while output growth also weakened. Furthermore, backlogs of work also fell as previous pressure on operating capacity was alleviated. Meanwhile, both input costs and output prices continued to rise at historically marked rates.

The seasonally adjusted HSBC *Purchasing Managers' Index™* (PMI™) – a headline index designed to measure the overall health of the manufacturing sector – posted 52.6 in August, down from July's 53.6. The latest reading was the fourth successive moderation in the headline index and, while an overall improvement in business conditions was signalled, the rate of expansion was modest and the weakest in the current 29-month sequence of growth.

New export business received by manufacturers in India decreased markedly during August, with the rate of contraction one of the sharpest in the series history. Panellists cited a softening in global economic conditions as the main contributor to the fall in new orders received from export markets. This contributed to a further slowdown in the growth rate of overall new work intakes, which was the weakest in the current 29-month sequence of expansion.

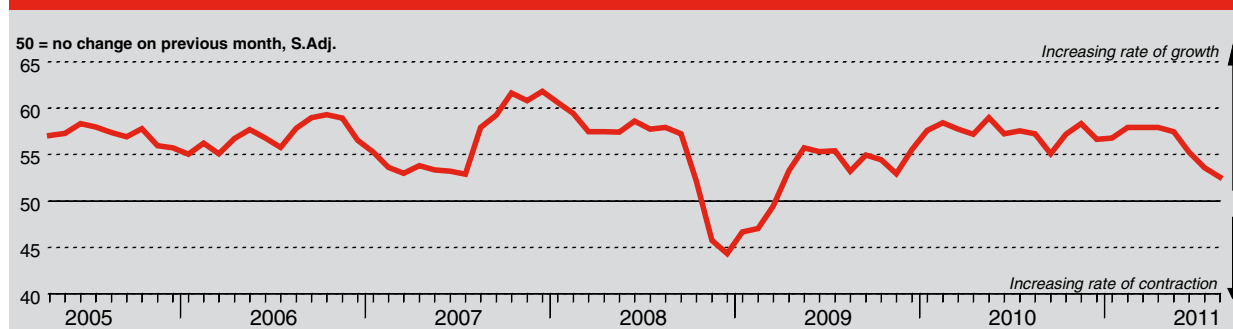
Indian manufacturers reported an easing in output growth in August, which was reflective of the weaker expansion of new business. Despite this, backlogs of work fell for the first time since March 2010, as pressure on operating capacity subsided. Finished goods stocks also decreased during August, with panellists noting that slower production growth and a fall in requirements to hold inventories had led to the fall.

August data signalled a marginal reduction of employment in the Indian manufacturing sector. This was in contrast to the modest increase recorded in July. Anecdotal evidence suggested a more cautious approach to hiring given softer growth of new business. In instances where companies were looking to recruit, shortages of labour to fill vacant positions were reported.

Purchasing activity growth slowed in August to a 21-month low, in line with a weaker increase in output. Nonetheless, stocks of purchases rose, with the rate of accumulation broadly consistent with that seen in July. Suppliers' delivery times were largely unchanged compared to the previous survey period.

Input prices faced by manufacturers in India continued to rise substantially, with the rate of cost inflation the fastest in four months. Higher raw material prices were cited as the main driver of the increase in input costs. Output prices continued to rise at a historically marked rate, despite slowing marginally since July.

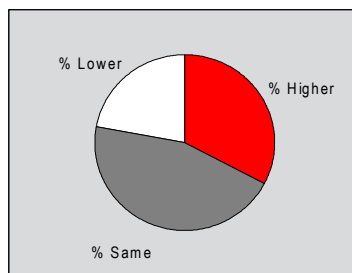
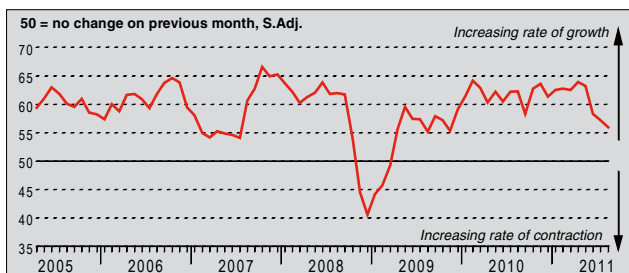
HSBC India *Purchasing Managers' Index™* (PMI™)



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

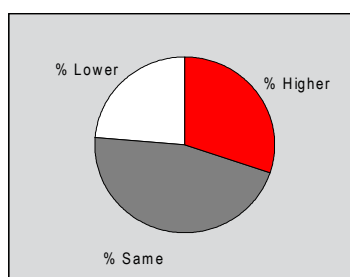
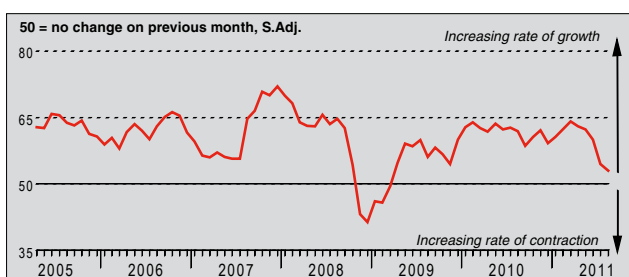
Q. Please compare your production/output this month with the situation one month ago.



August data signalled a fourth successive monthly slowdown in the rate of output growth in the Indian manufacturing sector. While the latest expansion was marked, it was the weakest since November 2009, and below the long-run series average. Panellists commented that, while new business growth was sustained, the rate of increase in new orders eased, leading to the slower expansion of output. Nonetheless, production has now risen in each month since April 2009.

New Orders Index

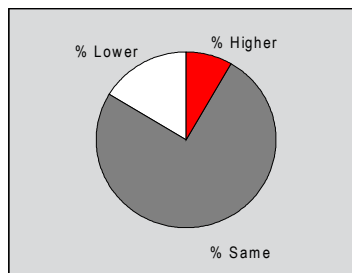
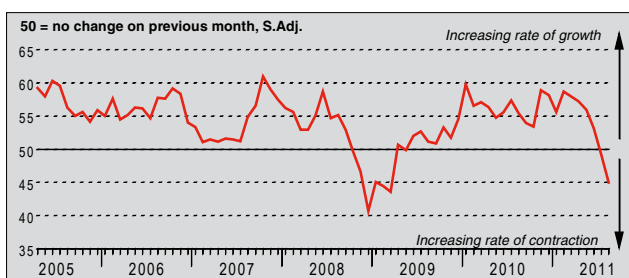
Q. Please compare the level of new orders received (India and export) this month with the situation one month ago.



Indian manufacturers reported an increase in new business received during August, extending the current sequence of growth to 29 months. Approximately 30% of panellists noted a higher level of new orders. However, the latest increase slowed to the weakest in the current period of expansion and was notably below the series trend. Anecdotal evidence suggested that a softening in demand growth had led to the weaker rise in new work intakes.

New Export Orders Index

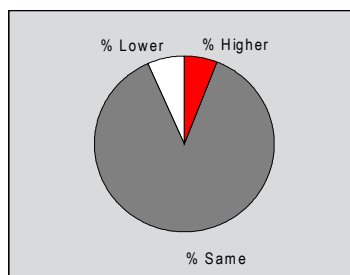
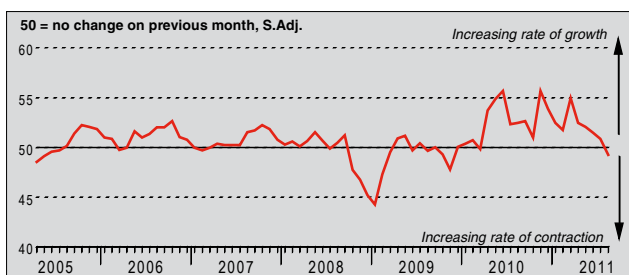
Q. Please compare the level of new export orders received this month with the situation of one month ago.



New export orders received by manufacturers in India decreased in August for a second consecutive month. Moreover, the rate of contraction accelerated solidly since July to the sharpest since March 2009, and was the fourth fastest decline in the series history. Where a reduction in new business received from export markets was indicated, anecdotal evidence suggested that this reflected weakening global economic conditions.

Backlogs of Work Index

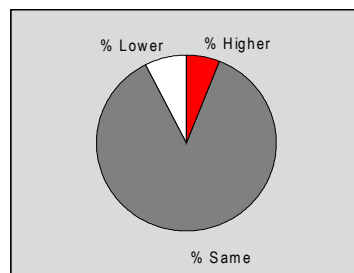
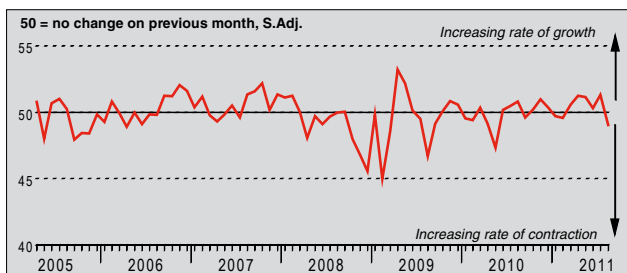
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Backlogs of work held at manufacturers in India fell during August. While the rate of depletion was marginal, it ended a 16-month period where outstanding business had increased. Panellists commented that a further slowdown in new business received had been the main contributor to the reduction in backlogs.

Stocks of Finished Goods Index

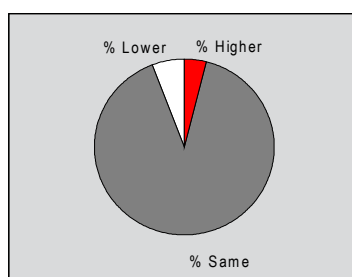
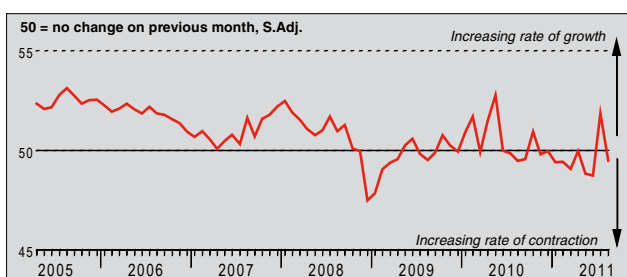
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Indian manufacturers reported a reduction in stocks of finished goods held at their units during August. The depletion was marginal, with approximately 87% of panellists noting no-change in post-production inventories from the previous survey period, but nonetheless ended a five-month period of increase. Respondents noting a fall in finished goods stocks cited lower inventory requirements as output growth eased.

Employment Index

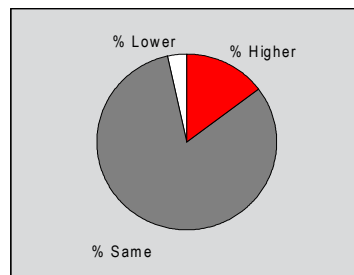
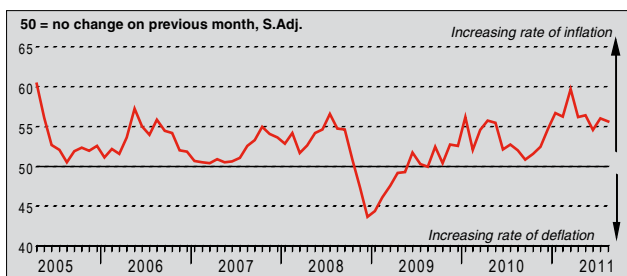
Q. Please compare the level of employment at your unit with the situation one month ago.



August data signalled a marginal reduction in employment in the Indian manufacturing sector. This marked the third time in the last four months where job cuts have been indicated. Anecdotal evidence suggested that shortages of labour to fill vacant positions and a more cautious approach to hiring in light of the slowdown in new order growth led to the decline in employment. However, the majority of panellists (approximately 90%) noted that staffing levels at their companies were unchanged since July.

Output Prices Index

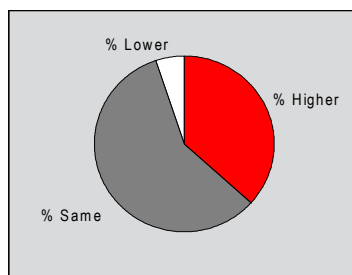
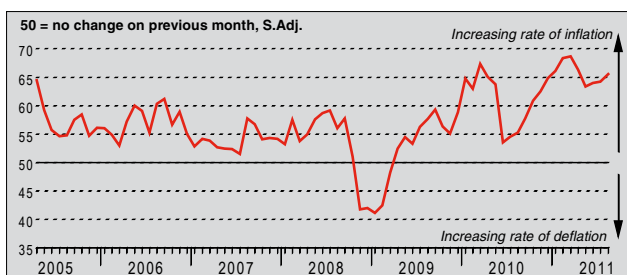
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Indian manufacturers reported a marked rise in their prices charged during August, citing further increases in input costs as the main driver of output price inflation. The rate at which charges rose slowed slightly since July, but remained above the long-run series average. Output price inflation has now been recorded in each month since September 2009.

Input Prices Index

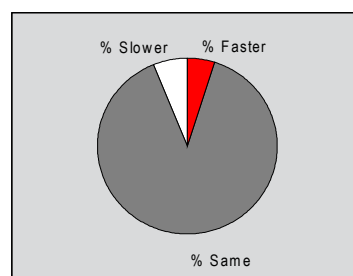
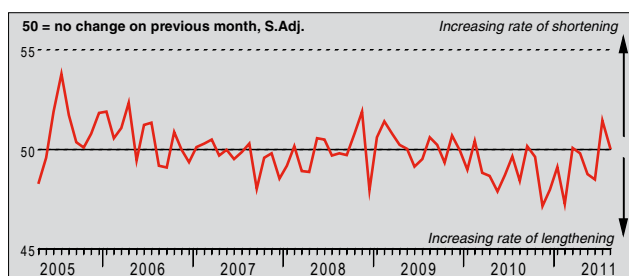
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Input costs faced by manufacturers in India rose substantially during August. Moreover, the rate of input price inflation accelerated for a third consecutive month to one of the strongest in the series history. Approximately 37% of panellists noted a higher level of costs compared to the previous month, attributing this to increased raw material prices. Input cost inflation has now been sustained for 29 successive months.

Suppliers' Delivery Times Index

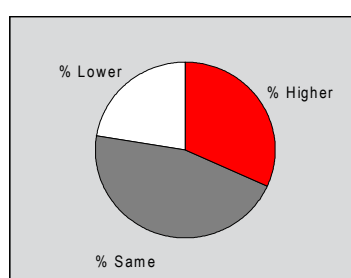
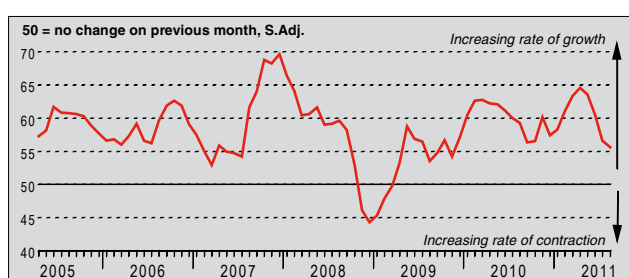
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



The seasonally adjusted Suppliers' Delivery Times Index posted negligibly above the 50.0 no-change threshold in August, signalling that lead times were broadly consistent with those seen in July. Where an improvement in vendor performance was indicated, this was attributed to requests to suppliers for faster delivery. However, this was largely offset by shortages of manpower at vendors, which impacted negatively on operating capacity.

Quantity of Purchases Index

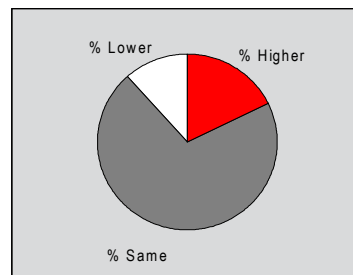
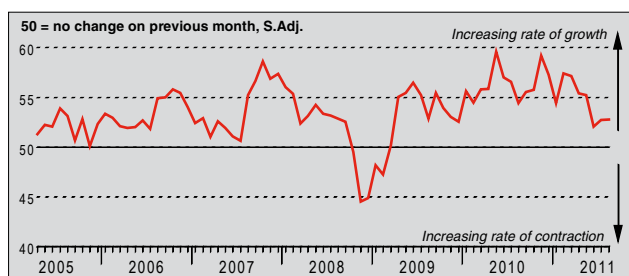
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Indian manufacturers reported a marked rise in their purchasing activity during August, commenting that this reflected a further increase in output. However, the rate at which input buying rose slowed for a fourth month running to the weakest since November 2009. Anecdotal evidence suggested that the easing in new order growth led to the lower rise in purchase volumes. Nonetheless, input buying has now increased for 29 successive months.

Stocks of Purchases Index

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



August data signalled a modest rise in stocks of purchases at manufacturers in India. The rate of accumulation was broadly consistent with that indicated in July, with approximately 18% of panellists noting an increase from the previous survey period. Respondents cited higher purchasing activity as the main driver behind the rise in pre-production inventories. Growth of stocks of purchases has now been recorded in each month since March 2009.

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 industry contribution to Indian GDP. 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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