

HSBC India Manufacturing PMI™

Expansion of Indian manufacturing sector output slows for fourth successive month

Summary

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.

Comment

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

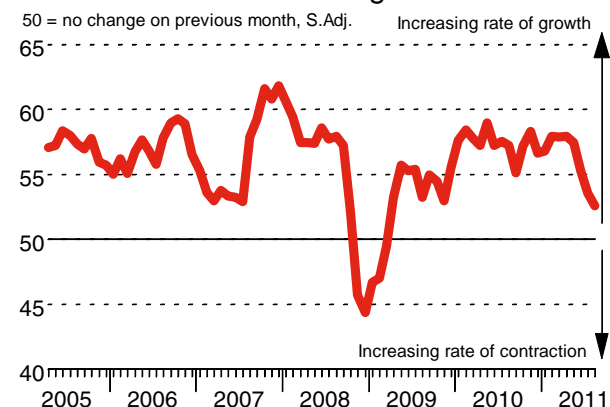
"The growth momentum in India's manufacturing sector eased further in August. The main driver of the weaker reading was a significant contraction in export orders, which are facing stiff global economic headwinds. In turn, this moderated the sequential growth rate of output and pulled down some of the other sub-indices. However, inflation pressures remain elevated, with input prices accelerating and output prices still trekking up, albeit at a marginally slower pace. Overall, the numbers suggest a moderation rather than a collapse in growth, and they confirm that inflation remains the primary policy concern."

Key points

- 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

Historical Overview

HSBC India Manufacturing PMI



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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 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. 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.

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