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HSBC India Manufacturing PMI™

Indian manufacturing sector grows at slowest pace in two-and-a-half years

Key findings:

- Headline PMI posts 50.4, from 52.6 in August; output growth at 30-month low
- New export business declines, while growth of overall new orders only modest
- Jobs cut at faster pace

September survey data, compiled by Markit for HSBC, signalled a further strengthening of the health of the Indian manufacturing sector. However, the rate of improvement slowed for the fifth month running, amid weaker growth of both new orders and output. Indications of spare capacity persisted as backlogs of work were once again depleted. Furthermore, employment fell at the sharpest rate since January 2009. Despite signs of a softening economic climate, 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 50.4 in September, down from August's 52.6. The latest reading pointed to a strengthening of operating conditions, although this was the weakest in the current two-and-a-half year sequence of growth.

Indian manufacturers reported a modest rise in new business received during September, extending the current period of expansion to 30 months. However, the rate of new order growth slowed for a sixth successive survey period. New work intakes for export markets fell in September, continuing the trend seen since July. While the rate of contraction eased slightly since August, it remained solid. The reduction in new export orders suggested that domestic demand provided the

principal support to overall new business growth.

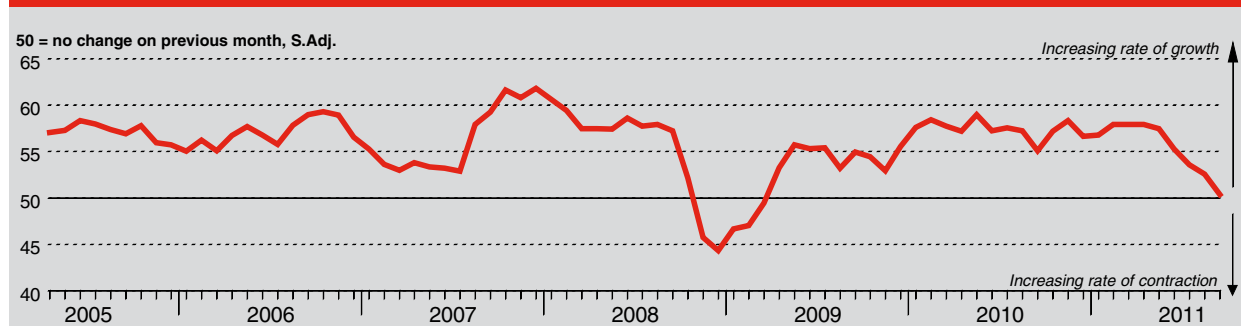
In line with the weaker increase in new orders, a slower rise in output was also recorded (the weakest in two-and-a-half years). Moreover, the degree to which output growth slowed was amongst the fastest in the survey history.

However, a further reduction in backlogs of work indicated that a degree of spare capacity persisted in the sector, while September data signalled a second successive decrease in employment in the Indian manufacturing sector. Anecdotal evidence suggested that, although weaker trends in production and new orders had impacted negatively on requirements for staff, there were also some reports that unfulfilled wage requests from employees had led to resignations.

Purchasing activity at manufacturers in India increased marginally in September, while suppliers' delivery times were reported to have lengthened (albeit only slightly). Where a deterioration in vendor performance was indicated, this was attributed to capacity constraints at suppliers, driven by labour shortages.

Input prices faced by Indian manufacturers rose substantially during September, reflective of higher raw material costs. The rate of input price inflation slowed since August to an 11-month low, but remained strong in the context of historical data. Charges increased at a marked rate that was broadly unchanged from the previous survey period.

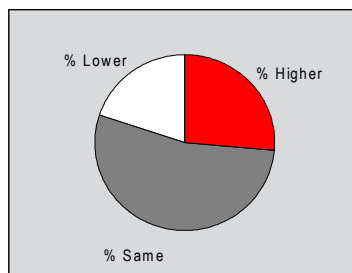
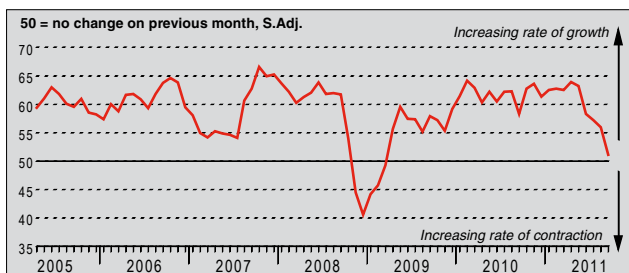
HSBC India *Purchasing Managers' Index™* (PMI™)



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

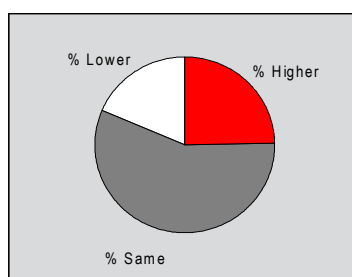
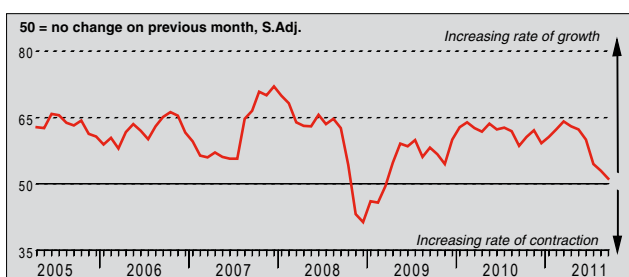
Q. Please compare your production/output this month with the situation one month ago.



September data signalled a increase in output in the Indian manufacturing sector, with growth now recorded in each month over the last two-and-a-half years. Approximately 26% of panellists noted a higher level of production, attributing this to a rise in new business received. However, the rate of output expansion slowed for the fifth consecutive month to the weakest in the current period of growth as the rise in new orders weakened.

New Orders Index

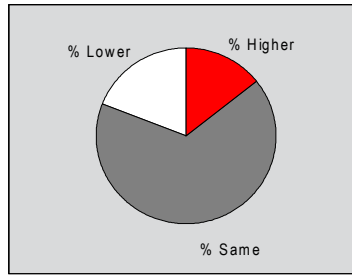
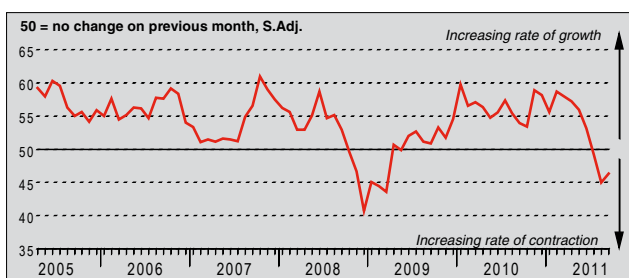
Q. Please compare the level of new orders received (India and export) this month with the situation one month ago.



New orders received by manufacturers in India increased during September. Around 25% of respondents recorded a higher level of new business compared to August, commenting that this predominantly reflected the good quality of goods produced. However, the latest expansion was the weakest in the current sequence of growth, which started in April 2009. Anecdotal evidence suggested that this reflected a softening of demand.

New Export Orders Index

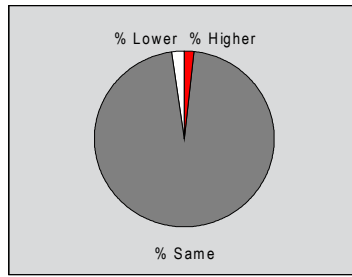
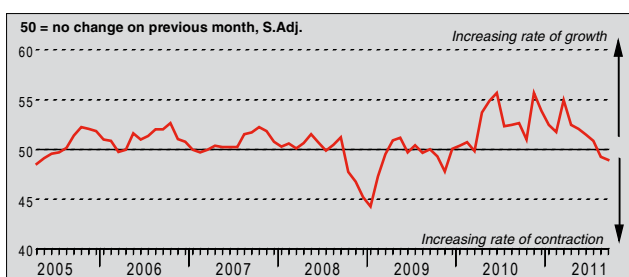
Q. Please compare the level of new export orders received this month with the situation of one month ago.



Indian manufacturers reported a third successive reduction in new business received from export markets in September. This was highlighted by the seasonally adjusted New Export Orders Index posting below the 50.0 no-change threshold. The rate at which new export business contracted was solid, despite easing since August. Panellists commented that softer business conditions in key markets had led to the fall in new export orders.

Backlogs of Work Index

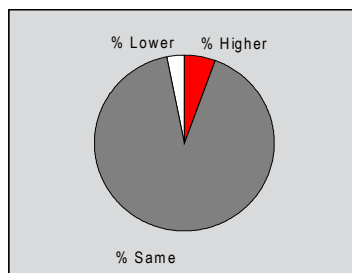
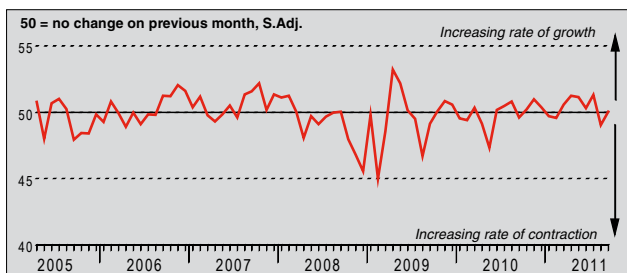
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Backlogs of work at manufacturers in India decreased in September. This was the second successive month of decline, although the rate of depletion was again marginal. Highlighting this, the vast majority of respondents (96%) indicated that levels of outstanding business at their companies were unchanged since August. Where a reduction in backlogs was recorded, this was attributed to the slowdown in new order growth.

Stocks of Finished Goods Index

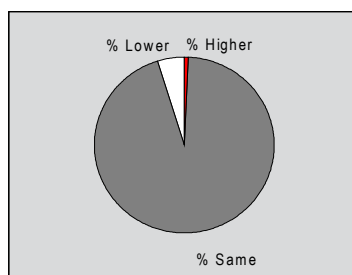
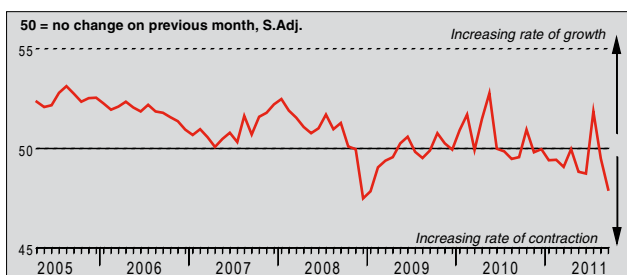
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



The seasonally adjusted Stocks of Finished Goods Index posted fractionally above the 50.0 no-change threshold in September, indicating a slight increase in holdings of post-production inventories. This followed a depletion in the previous survey period. Anecdotal evidence suggested that panellists were aiming to hold consistent levels of finished goods stocks.

Employment Index

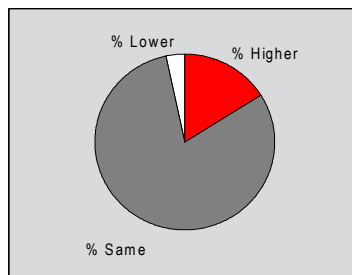
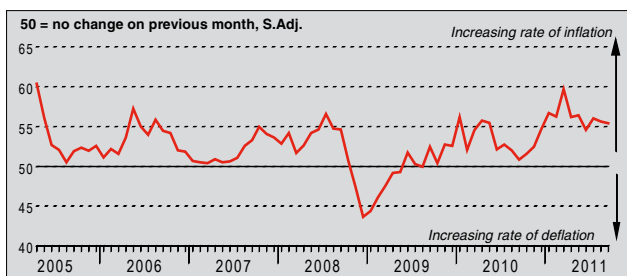
Q. Please compare the level of employment at your unit with the situation one month ago.



September data signalled a reduction of employment in the Indian manufacturing sector. This was the fourth time in five months that staffing levels have been reduced, and the latest rate of job cuts was the strongest since January 2009 and the third fastest in the series history. Respondents commented that employment had been reduced in line with weaker output growth. However, some panellists also indicated that staff requests for higher wages had not been met, leading to resignations.

Output Prices Index

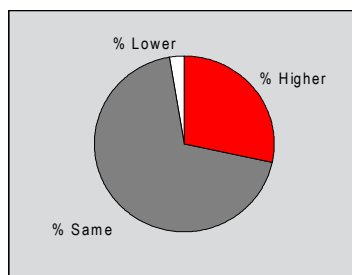
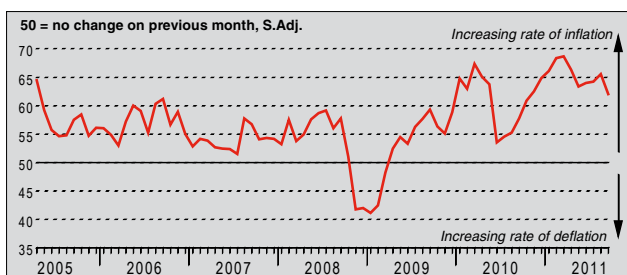
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Indian manufacturers reported a marked rise in their prices charged during September. The rate of output price inflation, which was broadly unchanged since August, remained above the long-run series average. Exactly 16% of panellists registered a higher level of charges, citing increased input costs as the main driver. Output prices have now risen for 25 successive months.

Input Prices Index

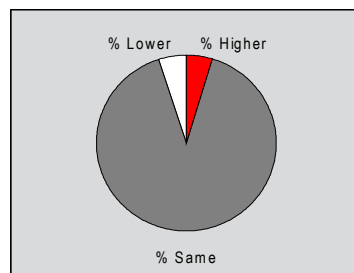
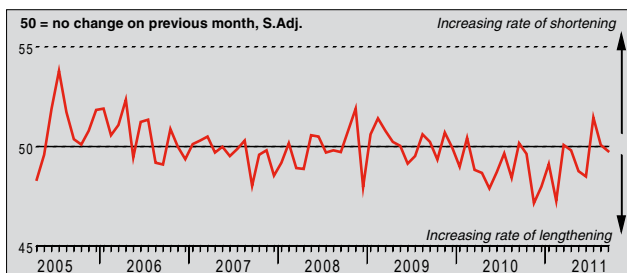
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Input prices faced by manufacturers in India increased substantially in September, extending the period of sustained cost inflation to two-and-a-half years. Approximately 28% of respondents recorded a rise in input prices over the month, commenting that this reflected higher raw material costs. While the rate of input cost inflation eased in the latest survey period, it remained notably strong in the context of historical data.

Suppliers' Delivery Times Index

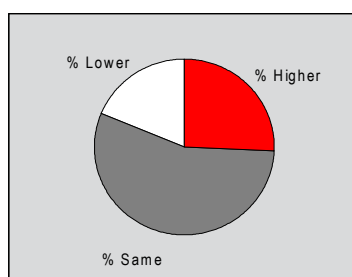
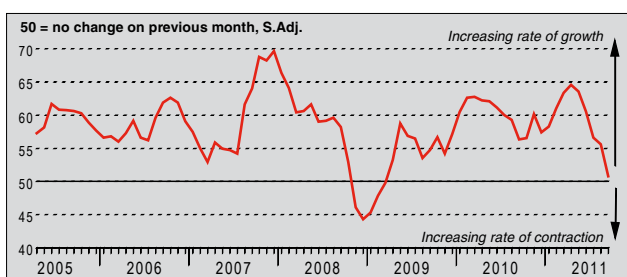
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Suppliers' delivery times were reported to have lengthened in September, ending a two-month sequence of marginal improvement. However, posting only slightly below the 50.0 no-change threshold, the seasonally adjusted Suppliers' Delivery Times Index indicated only a fractional deterioration in vendor performance. Where a lengthening in lead times was indicated, this was attributed to capacity constraints at suppliers, particularly due to labour shortages.

Quantity of Purchases Index

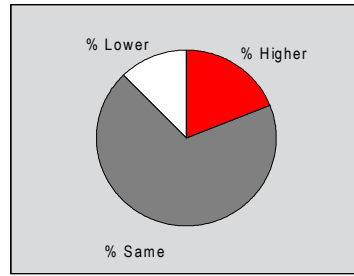
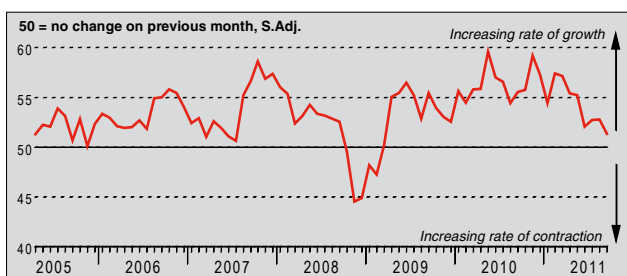
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



September data signalled a rise in purchasing activity at manufacturers in India, with just over one-quarter of panellists noting a higher level of input buying. Anecdotal evidence suggested that the increase in purchase volumes reflected growth of new orders and output. However, in line with the slower expansion in production, the rate at which input buying rose was only marginal and the weakest in the current 30-month period of growth.

Stocks of Purchases Index

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



Indian manufacturers reported an increase in stocks of purchases held during September, extending the period of sustained accumulation to 31 months. Panellists cited a further rise in purchase volumes as the main contributor to the increase in pre-production inventories. The rate at which stocks of purchases accumulated was modest, but eased since August to a 30-month low.

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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