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HSBC India Manufacturing PMI™

Growth of Indian manufacturing output strengthens, but remains modest

Key findings:

- Faster expansion of new business supports rise in production
- Backlogs of work up slightly as power shortages impact on output
- Inflationary pressures remain marked

October survey data, compiled by Markit for HSBC, signalled an improvement in Indian manufacturing sector business conditions. The rate of growth regained some momentum lost in September but was, nonetheless, weak in the context of historical data. Expansions of new orders and output supported the overall strengthening of operating conditions. However, new work from export markets continued to fall. Power shortages led to an increase in backlogs. Despite this, employment fell. Meanwhile, both input costs and output prices rose at marked rates that were broadly unchanged since September.

The seasonally adjusted HSBC *Purchasing Managers' Index™* (PMI™) – a headline index designed to measure the overall health of the manufacturing sector – posted 52.0 in October, up from September's 50.4. The latest reading pointed to an improvement in business conditions in the Indian manufacturing sector. The rate of growth was modest, but stronger than in the previous survey period.

Indian manufacturers reported a solid rise in new business received during October. The rate of expansion accelerated since September to the strongest in three months. Panellists commented that this reflected a general improvement in client demand. However, the rate of new order growth remained below the historical average, which was, in part, due to a further decrease in new business received from export markets. Demand in key export countries continued to be affected by

softening global economic conditions.

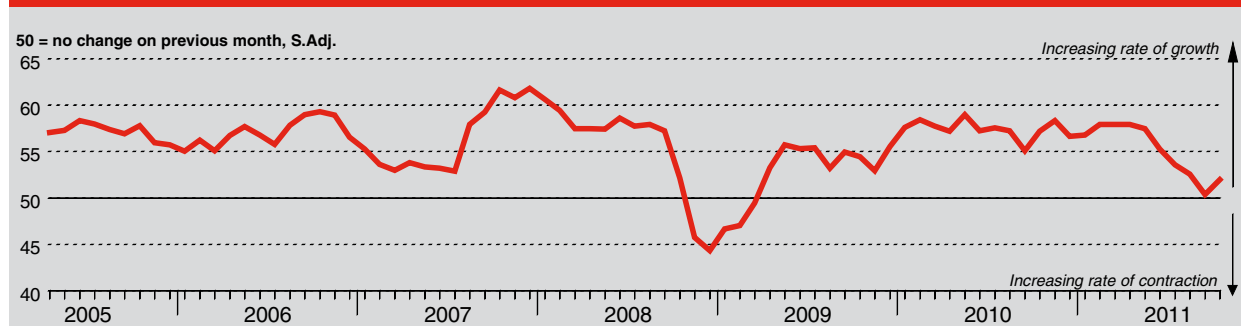
Output rose at a modest, but firmer, rate during October, in line with faster new order expansion. However, anecdotal evidence suggested that power outages had limited the extent of the rise in production. This was highlighted by an accumulation in levels of outstanding business and also a depletion of finished goods stocks, which were utilised to help fulfil order requirements. That said, both the accumulation of backlogs and the depletion of post-production inventories were marginal.

October data signalled a third successive reduction of employment in the Indian manufacturing sector. Respondents commented that increased salary demands from workers had made it difficult to fill vacant positions.

Purchasing activity rose solidly in October, and at a faster rate than in September. This was in line with stronger growth of new orders and output. Subsequently, a lengthening of lead times was reported. Panellists cited labour shortages at suppliers as the main contributor to longer lead times. Stocks of purchases increased in October.

Input prices faced by manufacturers in India rose substantially during October. The rate of cost inflation was broadly unchanged since September and strong in the context of historical data. Higher raw material and transport costs were the main drivers of the increase in costs. Output prices rose markedly, although the need to remain competitive limited the extent of the increase.

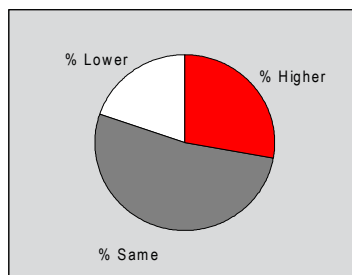
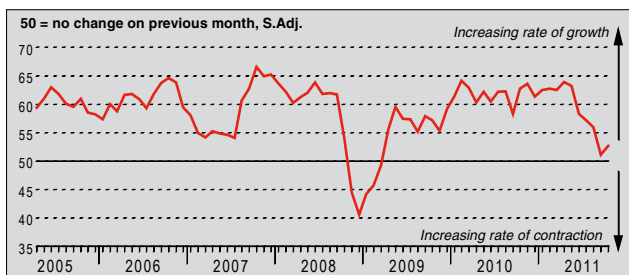
HSBC India *Purchasing Managers' Index™* (PMI™)



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

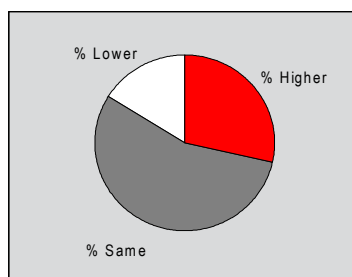
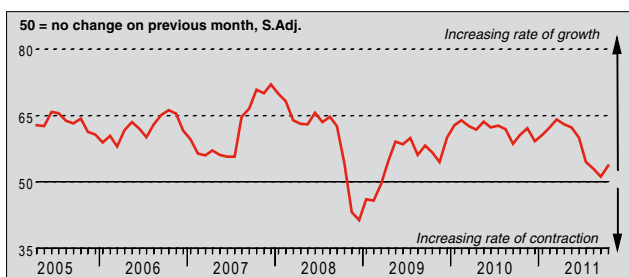
Q. Please compare your production/output this month with the situation one month ago.



October data signalled a modest increase of output in the Indian manufacturing sector. With approximately 28% of panellists noting a higher level of production, the rate of expansion was moderately stronger than in the previous survey period. Anecdotal evidence suggested that a faster increase in new orders helped support the improved rise in output. However, growth remained well below the historical average for the series, and was reported to have been restricted by power outages.

New Orders Index

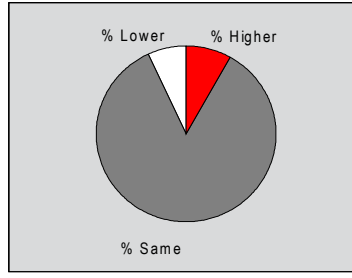
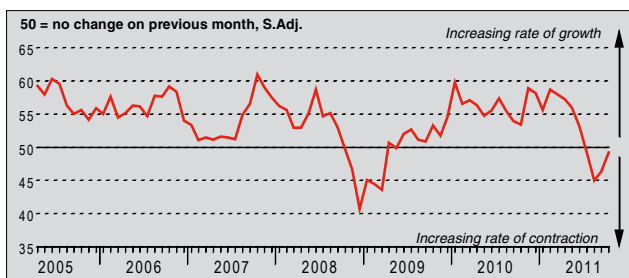
Q. Please compare the level of new orders received (India and export) this month with the situation one month ago.



Indian manufacturers reported a solid increase in new business received during October, extending the sequence of sustained growth to 31 months. Approximately 29% of panellists recorded higher new order volumes compared with the previous survey period, attributing this to a general improvement in demand. The rate of growth was the fastest in three months, but remained weak in the context of historical data.

New Export Orders Index

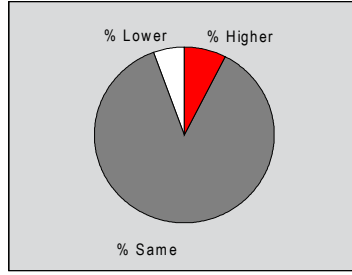
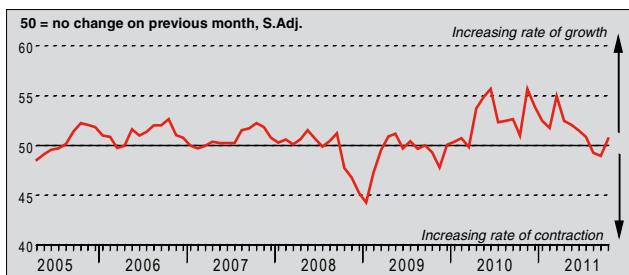
Q. Please compare the level of new export orders received this month with the situation of one month ago.



The seasonally adjusted New Export Orders Index posted marginally below the 50.0 no-change threshold, signalling a slight reduction in new business received from abroad. In line with the marginal rate of decline, the majority of respondents (approximately 85%) indicated that new work intakes from export markets were unchanged since September. Where a reduction was recorded, panellists commented that this reflected softening economic conditions in key export markets.

Backlogs of Work Index

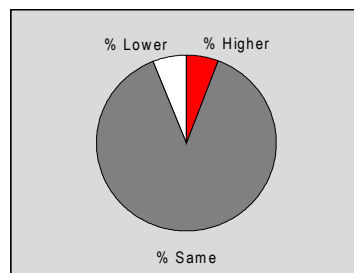
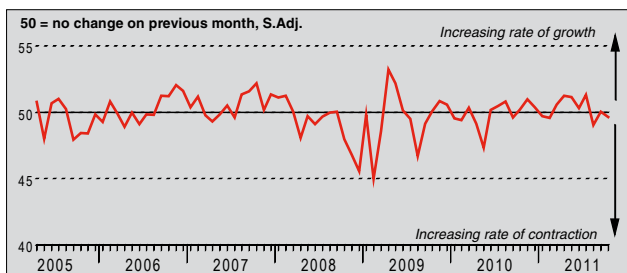
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Backlogs of work held at manufacturers in India increased during October, ending a two-month sequence of depletion. This indicated a degree of pressure on operating capacity, with panellists attributing this to power outages which delayed production. Nonetheless, the increase in backlogs was marginal, with the majority of respondents noting no change in outstanding business from the previous survey period.

Stocks of Finished Goods Index

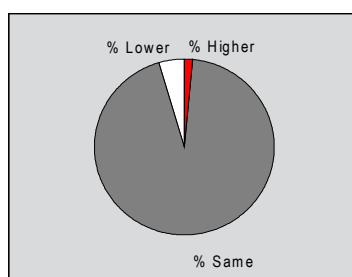
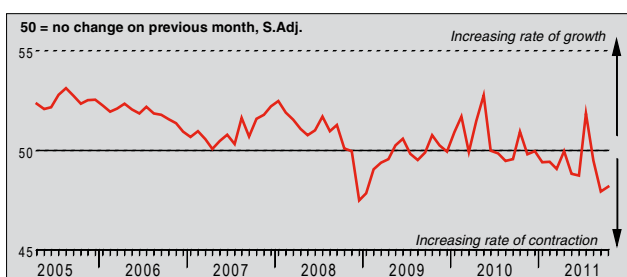
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Stocks of finished goods at Indian manufacturers fell in October for the second time in three months. However, the seasonally adjusted Stocks of Finished Goods Index posted only slightly below the 50.0 no-change threshold, signalling a marginal depletion in post-production inventories. Anecdotal evidence suggested that where a reduction in finished goods stocks was indicated, this was due to production delays with existing stocks utilised to meet order requirements.

Employment Index

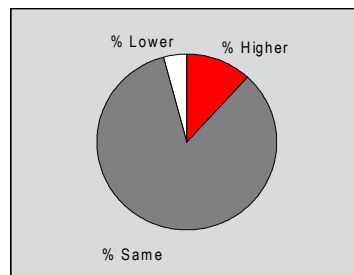
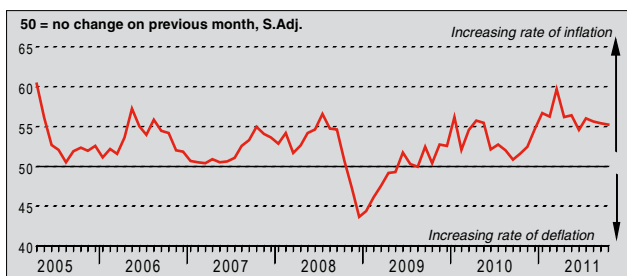
Q. Please compare the level of employment at your unit with the situation one month ago.



October data signalled a modest reduction of Indian manufacturing sector employment, despite rises in new orders and output. Panellists that reported a fall in jobs cited increasing salary requirements as the main contributor, with manufacturers finding it harder to fill vacant positions. The extent to which staffing levels fell eased slightly since September, but employment has now decreased in five of the last six months.

Output Prices Index

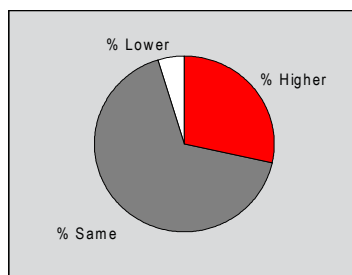
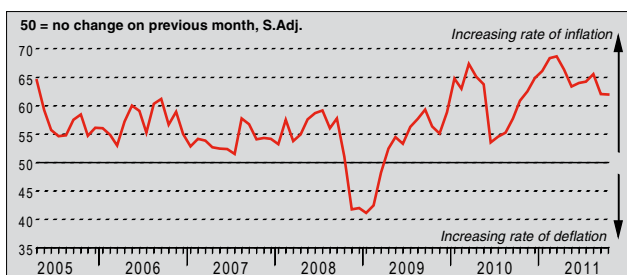
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Indian manufacturers reported a marked rise in their prices charged during October. The rate of output price inflation has been broadly unchanged over the last three months, and above the long-run series trend. Anecdotal evidence suggested that manufacturers had raised charges to pass on higher input costs to clients. However, the extent of the rise was weaker than that of costs, as competition for new business prevented a sharper rise in output prices. Charges have now increased for 26 successive months.

Input Prices Index

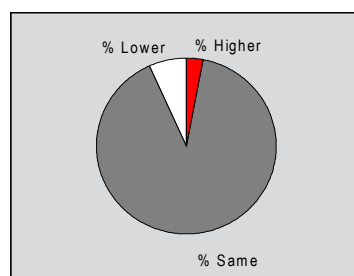
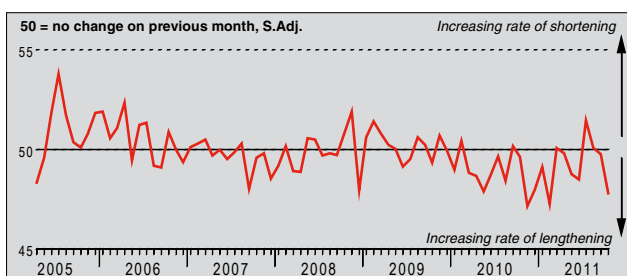
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Input prices faced by manufacturers in India increased substantially during October, with rises now recorded for 31 consecutive months. The rate of cost inflation was largely consistent with that recorded in September, and stronger than the long-run series average. Approximately 29% of respondents indicated an increase in input prices, commenting that this was primarily driven by higher raw material and transportation costs.

Suppliers' Delivery Times Index

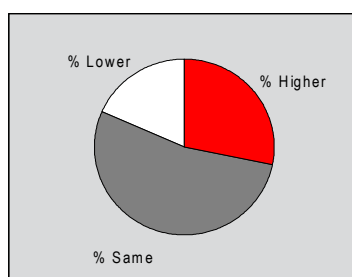
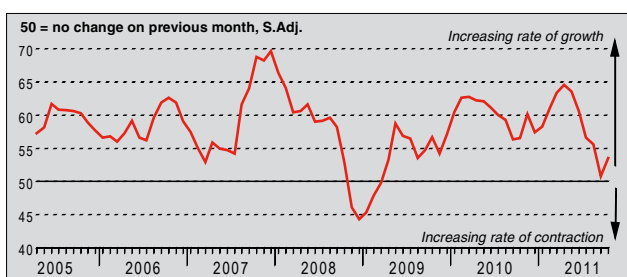
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Indian manufacturers reported a lengthening of suppliers' delivery times in October. This was the second month running that a worsening in vendor performance was recorded and, while the rate of deterioration was modest, it accelerated since September. Panellists cited growth of purchase volumes and shortages of labour at vendors as the main drivers of the lengthening in lead times.

Quantity of Purchases Index

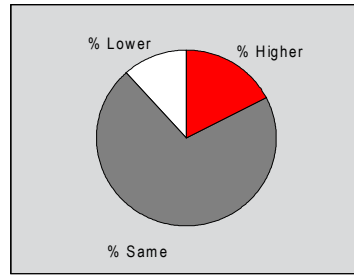
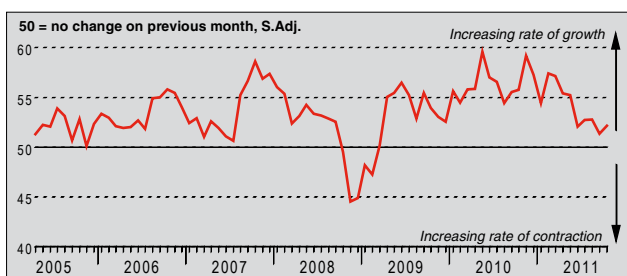
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



October data signalled a rise in purchasing activity at manufacturers in India, reflective of growth of new orders and output. Moreover, the rate at which input buying increased was stronger than in September, in line with faster expansions of production and new business. Input buying has now risen in each of the last 31 months.

Stocks of Purchases Index

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



Stocks of purchases at manufacturers in India increased during October, and at an accelerated rate. Anecdotal evidence suggested that this was in line with a sharper rise in purchase volumes. Nonetheless, the rate of accumulation was modest, with approximately 17% of respondents reporting an increase in pre-production inventories compared with around 12% noting a decline. Overall, stocks of purchases have now risen 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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