HSBC *Purchasing Managers' Index*™ Press Release

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compiled by markit

HSBC India Manufacturing PMI™

New order growth strengthens to six-month high in December

Summary

The seasonally adjusted HSBC *Purchasing Managers' Index™ (PMI™)* – a headline index designed to measure the overall health of the manufacturing sector – registered 54.2 in December, up from 51.0 in November, and indicated the strongest improvement in business conditions since June. Overall, the rate of increase was solid, but nonetheless remained weaker than the long-run series average.

Indian manufacturers reported a further rise in new business during December. The latest expansion in new work intakes was the thirty-third in successive months. Moreover, growth was strong and the fastest since June. Incoming new work from abroad also rose in December, with the rate of increase solid overall. The increase in total new business was attributed to stronger client demand.

Reflective of larger new order volumes, Indian manufacturers raised production in December. Output increased solidly, with the rate of growth accelerating since November to a four-month high. Nonetheless, backlogs increased for the third consecutive month. Stocks of finished goods were accumulated only marginally.

Monitored companies increased their input buying on average in December. Anecdotal evidence generally attributed higher purchase volumes to greater production requirements. Stocks of purchases were also accumulated during the latest survey period.

Lead times on inputs shortened during December, in contrast to the lengthening that had been registered in the previous three months. Respondents suggested that suppliers were processing orders faster during the latest survey period. However, the improvement in vendor performance was only marginal overall.

Employment in India's manufacturing sector increased in December, ending the period of job losses that began in August. However, the rate of employment growth was only slight, with the vast majority of panellists keeping staff headcounts unchanged from November.

Input costs faced by Indian manufacturers rose further during the latest survey period. Raw materials and petrol were particularly mentioned as having increased in price. Overall, the rate of input cost inflation remained strong and above the long-run series average, despite slowing slightly since November. Firms partly passed on greater cost burdens to clients by raising their output charges in December. Average selling prices rose strongly, with the rate of increase the fastest in seven months.

Comment

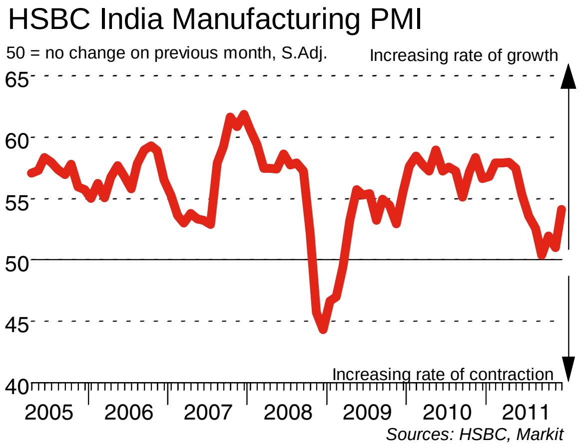
Commenting on the India Manufacturing PMI survey, Leif Eskesen, Chief Economist for India & ASEAN at HSBC said:

"Activity in the manufacturing sector rebounded in December led by higher demand from both domestic and foreign clients, suggesting that the momentum in the sector is not quite as weak as official and more dated IP data would suggest. The rebound in growth added to the build-up in backlogs of work and also stabilized employment, which crawled back into positive territory. The solid demand from clients allowed manufacturing companies to increase output prices at an accelerated pace to pass on rising costs. While the sequential inflation of input costs decelerated slightly, it remained high by historical standards. All in all, these numbers suggest it's premature for the RBI to replace inflation with growth as the main concern."

Key points

- New work intakes rise strongly, reflective of greater client demand
- Output growth accelerates sharply since November
- Job creation for first time in five months

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 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.

HSBC:

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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.