HSBC India Manufacturing PMI™

Indian manufacturing sector business conditions improve at fastest rate in eight months

Summary

The seasonally adjusted HSBC *Purchasing Managers'* $Index^{TM}$ (PMI^{TM}) — a headline index designed to measure the overall health of the manufacturing sector — registered 57.5 in January, up from 54.2 in December. The latest reading pointed to the strongest improvement in business conditions since May 2011. Furthermore, growth was faster than the long-run trend.

Manufacturers in India reported a further increase in new business received during January. The rate of expansion accelerated for a second month running, and was the fastest in eight months. Panellists commented that a general improvement in demand and market conditions had led to the latest rise in new order volumes. Growth of new export business also quickened in the latest survey period, but to a lesser extent. Anecdotal evidence suggested that difficult economic conditions and increased competition in some markets had limited gains in new export orders.

A stronger rise in output was reported in line with faster new order growth. Backlogs of work continued to increase, but at a slower rate. Stocks of finished goods increased for a third consecutive month, with the rate of accumulation the strongest in this sequence. Anecdotal evidence suggested that growth was in line with higher production and to meet increased new order obligations.

January data signalled a broadly stable level of employment in the Indian manufacturing sector. The overwhelming majority of respondents indicated that staffing levels at their units were unchanged on the month.

Reflective of sharp rises in both new orders and output, purchasing activity increased substantially during January. Despite this, suppliers' delivery times were reported to be largely consistent with those in December. Stocks of purchases rose at a marked rate that was the fastest since March 2011.

Input prices faced by Indian manufacturers increased substantially during January. Higher raw material costs were cited as the main driver of input price inflation. The rate of increase was slightly faster than in December and strong in the context of historical data. Subsequently, manufacturers raised their output prices again. The rate of charge inflation was marked and above the long-run series trend.

Comment

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

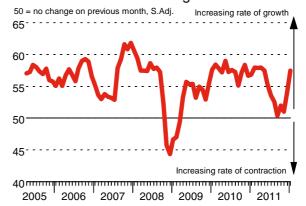
"Activity in the manufacturing sector rebounded again in January led by higher demand from both domestic and foreign clients, suggesting some recovery in sentiment in recent months. The rebound in growth kept backlogs of work growing and employment growth in positive territory. The solid demand from clients led manufacturing companies to increase stocks of both finished goods and purchases, but it also kept inflation pressures firmly in place, with neither input and output price inflation showing any signs of abating. All in all, these numbers suggest it's premature for the RBI to cut policy rates and that they have to await evidence of a significant and sustained decline in inflation and/or further materialization of down side risks to growth before they can roll out rate cuts."

Key points

- New order and output growth accelerate markedly at start of 2012
- Employment little changed
- Input cost and output price inflation remains elevated

Historical Overview

HSBC India Manufacturing PMI



Sources: Markit, HSBC.





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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' IndexTM (PMITM)* 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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