HSBC Purchasing Managers' Index™ Press Release

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compiled by markit

HSBC India Manufacturing PMI™

Further strong improvement in Indian manufacturing sector business conditions during February

Summary

The seasonally adjusted HSBC *Purchasing Managers' Index™ (PMI™)* – a headline index designed to measure the overall health of the manufacturing sector – registered 56.6 in February, down slightly from January's eight-month high of 57.5. Nonetheless, the latest reading pointed to a marked improvement in business conditions that was stronger than the long-run trend.

Indian manufacturers reported a substantial increase in new business during February. Moreover, the rate of growth strengthened slightly to the fastest since April 2011. Panellists commented that improved demand had boosted the expansion in overall new orders. A rise in new export business was recorded for the fourth successive month, although the increase weakened since January. This reportedly reflected fragile economic conditions in key export markets.

In line with the strong rise in new business, output also increased sharply during February. However, the rate of expansion moderated. Subsequently, backlogs of work rose for the fifth consecutive month.

February data signalled a reduction of employment in the Indian manufacturing sector, compounding pressure on operating capacity. Panellists again commented that a lack of suitable labour to fill vacant positions had led to the fall in staffing levels. Nonetheless, the vast majority of respondents noted no change in employment on the month.

Growth of purchasing activity strengthened in February, in line with a faster expansion of new orders. However, the accumulation of stocks of purchases slowed. Manufacturers noted that, in some cases, existing inventories had been utilised to meet output requirements due to the high price of inputs. Suppliers' delivery times were reported to have lengthened marginally.

Input prices faced by Indian manufacturers continued to rise at an historically marked rate in February, with higher raw material costs cited as the main driver of inflation. Nonetheless, the latest increase was a 17-month low. In contrast, output price inflation accelerated to the fastest since March 2011. Anecdotal evidence suggested that attempts to pass on higher costs had led to the rise in charges.

Comment

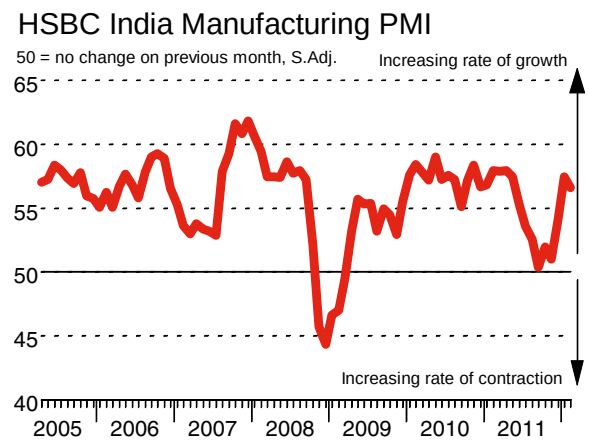
Commenting on the India Manufacturing PMI™ survey, Leif Eskesen, Chief Economist for India & ASEAN at HSBC said:

"Activity in the manufacturing sector continued to expand in February, although at a slightly slower pace. Output growth eased and employment fell, but domestic orders grew at a faster clip. While input costs rose less fast, sequential inflation remains high by historical standards. Moreover, output cost inflation continued to accelerate. These numbers suggest it's premature for the RBI to cut policy rates at the March meeting and that the easing cycle, expected to commence in April-June, will have to be gradual."

Key points

- Output growth weakens slightly, but new orders rise at strongest rate in ten months
- Employment falls, despite evidence of capacity constraints
- Output price inflation up to strongest since March 2011

Historical Overview



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' 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

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