HSBC India Manufacturing PMI™

Indian manufacturing operating conditions improve at slowest rate of 2012 so far

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 54.7 in March, down from February's 56.6. The latest reading pointed to a solid improvement in business conditions, although growth was below the long-run trend.

Indian manufacturers reported a marked rise in new business received during March. However, the rate of expansion was the weakest in three months. Anecdotal evidence suggested that power cuts and raw material shortages had limited manufacturers' ability to take on new business and customers' propensity to place orders – despite a general improvement in demand. In contrast new export order growth gained pace in March.

With the expansion in output restricted, backlogs of work accumulated at a marked pace that was the fastest in the series history. Stocks of finished goods rose only modestly, with the vast majority of respondents noting no change in post-production inventories since February.

March data signalled a marginal rise of employment in the Indian manufacturing sector. Job creation has now been registered in three of the last four months. Where an increase in staffing levels was indicated, this was attributed to higher output requirements.

The rate at which purchasing activity rose was marked, but slowed during March. This was in line with weaker expansions in production and new orders. Nonetheless, suppliers' delivery times lengthened again, and to a greater extent than in February. Panellists commented that power cuts had impeded deliveries, and this was compounded by some shortages of raw materials. Stocks of purchases rose again in order to accommodate growth of output.

Input prices faced by Indian manufacturers increased substantially during March. Higher raw material prices were cited as the main driver of inflation. The latest rise in costs was the second-slowest in 17 months, but remained elevated in the context of historical data. Subsequently, manufacturers aimed to pass on higher input prices to customers by raising their prices charged. However, the rate of charge inflation slowed to a 16-month low.

Comment

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

"Activity in the manufacturing sector expanded at a slower pace in March led by a moderation in output and order growth, although export orders accelerated. Capacity remains tight, with backlogs of work increasing, and supplier delivery times lengthening. While inflation of output prices eased, a further rise in input price inflation suggests it could pick up again as cost pressures are passed on to customers. These numbers suggest that upside risk to inflation remain and that the RBI's easing cycle, in terms of timing and magnitude, depends on the extent to which these risks materialize."

Key points

- Output and new order growth weaken, as power cuts lead to capacity constraints
- Backlogs rise at fastest pace in survey history
- Employment increases marginally

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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