HSBC Purchasing Managers' Index™ Press Release

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compiled by markit

HSBC India Manufacturing PMI™

New business continues to rise sharply at Indian manufacturers amid strong demand

Summary

The seasonally adjusted HSBC *Purchasing Managers' Index™ (PMI™)* – a headline index designed to measure the overall health of the manufacturing sector – posted 54.8 in May, little-changed from the reading of 54.9 in April, and thereby signalling a further marked improvement of business conditions in the sector.

New orders at Indian manufacturers increased sharply again in May, with the rate of expansion only slightly weaker than in April. According to respondents, strong demand was a key factor behind the rise in new business, while the importance of good quality products was also mentioned. New export orders increased for the seventh consecutive month.

New order growth led firms to expand production again in May, and at a substantial pace. That said, respondents continued to suggest that power cuts had hampered operations, preventing a faster rise in output.

Power shortages, as well as insufficient employee numbers, led to a marked accumulation of backlogs of work that was only fractionally weaker than March's series record. Reflecting this, manufacturers increased employment levels in May, although the rate of job creation was again modest.

As has been the case in each month since April 2009, firms raised their input buying in May. Respondents indicated that the latest increase was reflective of higher new orders and rising production requirements. Increased input buying and power cuts impacted negatively on supplier performance, although the lengthening of delivery times was only fractional.

Strong demand for inputs, coupled with reports of limited supply, led to another rise in input costs during the month. The rate of inflation was little-changed from that seen in April.

Indian manufacturers passed on higher input costs to their clients in May. Output prices rose for the thirty-third month in a row, and at one of the fastest rates in the history of the series.

Stocks of purchases rose marginally, following a slight fall in the previous month. Where an accumulation of pre-production inventories was recorded, this was linked to increased new business. Stocks of finished goods also rose, extending the current sequence of increasing inventories to seven months. The latest accumulation of stocks of finished goods was broadly in line with those seen in recent months.

Comment

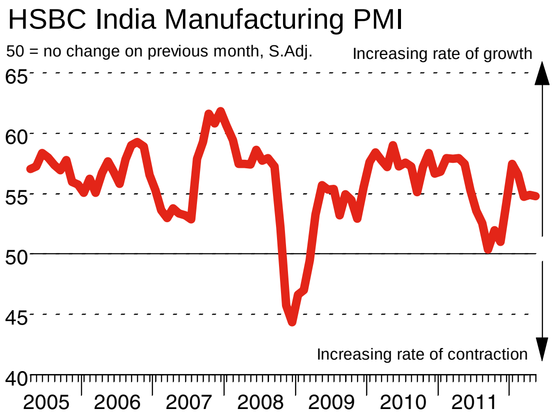
Commenting on the India Manufacturing PMI™ survey, Leif Eskesen, Chief Economist for India & ASEAN at HSBC said:

"Activity in the manufacturing sector kept up the pace in May with output, quantity of purchases and employment expanding at a faster pace. New orders decelerated slightly led by domestic orders and stock levels rose, suggesting a slight moderation in output growth going ahead. Input and output prices rose at a slower pace than in April, but inflation is still high by historical standards and capacity remains tight with backlogs of work rising and supplier delivery times lengthening. In light of these numbers, the RBI does not have a strong case for further rate cuts, which if implemented could add to lingering inflation risks."

Key points

- Further substantial increase in new business
- Output growth remains marked
- Firms raise charges at one of the fastest rates in the series history

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.

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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