

# HSBC India Manufacturing PMI™

## June data signals continued inflationary pressures in India manufacturing sector

### Summary

The seasonally adjusted HSBC Purchasing Managers' Index™ (PMI™) – a headline index designed to measure the overall health of the manufacturing sector – posted 55.0 in June, little-changed from the reading of 54.8 in May, hence signalling a further marked improvement of business conditions in the sector.

Firms indicated that product quality improvement combined with stronger demand contributed to higher levels of new orders. As a consequence, output expanded again in June, extending the current expansionary period to three years and three months. New export orders increased moderately at manufacturing firms.

Output prices increased as manufacturers attempted to pass further rises in the cost of inputs on to their clients. Moreover, firms in India reported that charges also increased in line with more expensive labour costs.

Input prices continued to increase, extending the inflationary period to 39 successive months. The rate of inflation in June was sharp and the largest since August 2011.

Manufacturers experienced a further expansion in staffing levels. Workforces increased slightly to accommodate higher levels of output.

Companies intentionally increased post-production inventories in line with stronger demand. Stocks of finished goods have now expanded throughout the past eight months.

Firms accumulated stocks of purchases intentionally according to expected increases in demand.

Lead times shortened moderately in the Indian manufacturing sector. Panellists stated that suppliers had been able to meet requirements for faster deliveries.

Outstanding business increased marginally in June, extending the period of accumulation to nine months. Powercuts were reported by firms as one of the main factors leading to growing levels of outstanding business.

Manufacturers increased their levels of input buying in June. Although the rate of increase was substantial, it was the lowest in the year so far.

### Comment

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

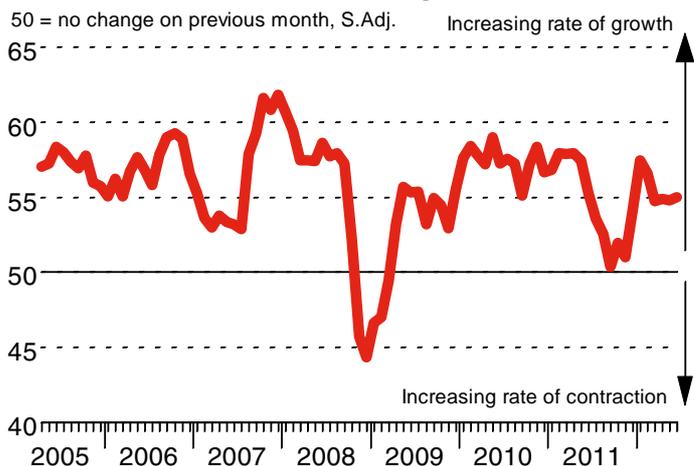
"Activity in the manufacturing sector kept up the pace in June with output, and employment expanding at a faster pace. The latter helped slow the pace of growth in backlogs of work. New order growth decelerated slightly led by export orders while stock levels rose, suggesting a slight moderation in output growth going ahead. Input and output prices rose at a faster pace than in May, keeping inflation high by historical standards. In light of these numbers, the RBI does not have a strong case for further rate cuts, which could add to lingering inflation risks."

### Key points

- PMI at 55.0 indicates further improvement in health of manufacturing economy
- Production expands sharply in June
- Largest month-on-month increase in input prices since August 2011

### 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' 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](mailto:economics@markit.com).

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