

HSBC India Manufacturing PMI™

Production increases at the weakest rate since last November

Summary

The seasonally adjusted HSBC Purchasing Managers' Index™ (PMI™) – a headline index designed to measure the overall health of the manufacturing sector – posted 52.9 in July, down from the reading of 55.0 recorded in June and pointing to a slowdown in growth of the manufacturing sector.

Manufacturing companies in India signalled an increase in output during July amid reports of growing new orders. That said, the pace of expansion was the slowest in the past eight months.

New orders continued to rise but at the weakest rate since last November as new export orders fell for the first time since October 2011. Anecdotal evidence suggested that the global economic slowdown affected export markets, leading to weaker demand. Moreover, dollar appreciation was mentioned as a driver behind falling export business.

Job creation was recorded at manufacturing firms in India during July. The rate of increase was only modest, and eased since June. Panellists reportedly recruited more labour in line with higher production. Meanwhile, the volume of work-in-hand (but not yet completed) fell moderately. This was the first contraction in backlogs of work recorded since September 2011.

Manufacturing firms in India signalled rising charges during July. Output price inflation has persisted in the sector for 35 successive months. However, the rate of increase during July slowed from the reading in the previous month. Input costs also rose and, in line with charges, at a slower pace than June. Respondents stated that factory gate prices were increased to reflect rising fuel, labour and raw material costs. Additionally, dollar appreciation was mentioned as a factor leading to rising charges.

Post-production inventories were accumulated in July, but at a slight pace. Panellists reportedly accumulated stocks of finished goods as demand was weaker-than-anticipated. Meanwhile, pre-production inventories were broadly unchanged.

Quantity of purchases in the Indian manufacturing sector increased moderately, with the pace of increase being the slowest since September 2011. Manufacturers stated that input buying rose in line with increasing new orders.

Average lead times were little moved from June with the majority (96%) of manufacturers reporting that vendor performance was unchanged. Moreover, the index posted below its long-run average.

Comment

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

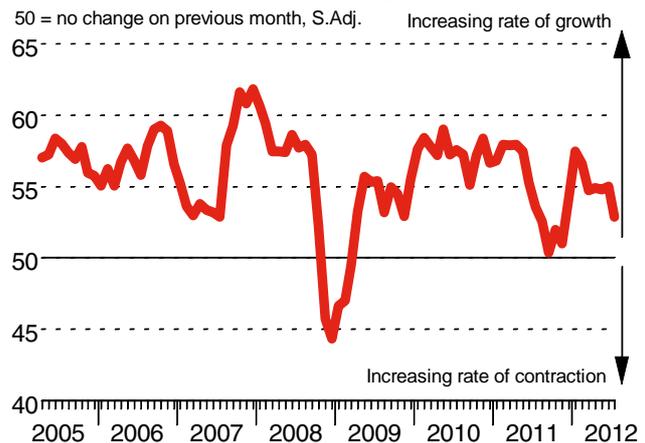
"Manufacturing activity grew at a slower clip in July on the back of power outages and a moderation in new order inflows, with the weak global economic conditions dragging down export orders. Moreover, orders decelerated faster than inventory accumulation suggesting that the more moderate expansion in output will continue in the months ahead. The slowdown in order growth allowed manufacturers to reduce backlogs of work. Moreover, input and output prices decelerated, but inflation remains above historical averages."

Key points

- PMI signals slowest improvement in the health of the manufacturing sector for eight months
- First sub-50 reading in new export orders in nine months
- Output price inflation eases

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.

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