

HSBC India Manufacturing PMI™

Output expands at slowest pace in nine months

Summary

The seasonally adjusted HSBC Purchasing Managers' Index™ (PMI™) – a headline index designed to measure the overall health of the manufacturing sector – posted 52.8 in August, broadly unchanged from the reading of 52.9 recorded in July. Although the health of the manufacturing sector continued to improve, the pace of expansion was the slowest in the year-to-date.

Output in the Indian manufacturing sector increased in August. However, there were some mentions that powercuts continued to hamper production. With exports slightly down, production subsequently expanded at the slowest pace in nine months. New export orders fell for the second successive month, amid reports of weaker international demand and unfavourable exchange rate conditions. However, the rate of contraction was only slight. Meanwhile, the current period of expansion in order book volumes was extended to a 41-month sequence. That said, the latest data signalled the slowest rate of growth since last November.

Post-production inventories at manufacturers in India were accumulated at a slight pace. According to panellists, stocks of finished goods increased due to weaker-than-anticipated demand. Pre-production inventories also increased, and the current sequence of accumulation in stocks of purchases was extended to four months.

Input price inflation persisted in the Indian manufacturing sector during August. The rate of increase was steep, but the slowest in six months. Respondents signalled that input costs rose in line with general market inflation and increasing raw material prices. Charges also increased, as manufacturers reportedly passed on the latest rise in raw material prices to their clients.

Payroll numbers at manufacturing companies in India increased for the sixth successive month amid reports of business growth. Workforces expanded sharply, and at the fastest pace since data collection started in April 2005. Furthermore, backlog accumulation was recorded as power shortages persisted. That said, the pace of growth was only slight. Powercuts also affected vendor performance, it was reported. Average lead times lengthened at a slight pace during the reporting month.

Finally, purchasing activity increased for the forty-first successive month. Anecdotal evidence suggested that quantity of purchases expanded in line with higher productivity.

Comment

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

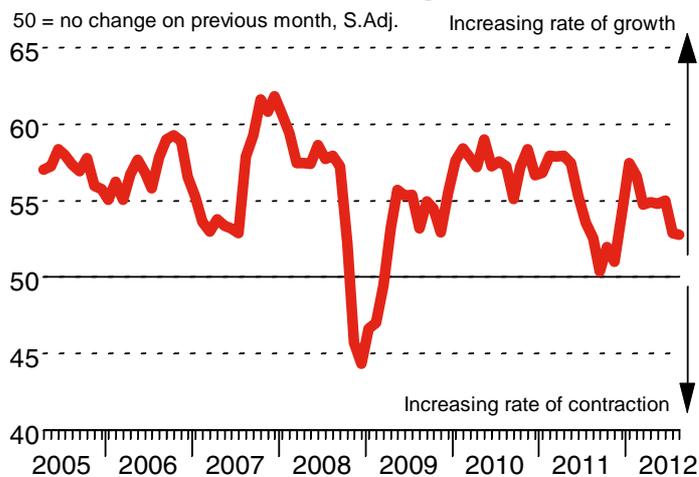
"The momentum in the manufacturing sector eased further on the back of weak external demand and output disruptions caused by the major power failures in early August. The power failures also partly contributed to a rise in backlogs of work as manufacturing companies struggled to finish orders on time. However, employment remains a bright spot, expanding at the fastest pace since data collection started 7 years ago. The inflation picture, on the other hand, was a bit mixed. While input price rose at a slightly slower pace, output price inflation picked up due to higher import costs and taxes. With the slowdown partly supply driven and inflation risks still lingering, these numbers underscore that the room for policy rate cuts is very limited at the moment."

Key points

- Slowest expansion in new orders since November 2011
- Second successive decline in new export orders
- Employment increases at series record

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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