

HSBC India Manufacturing PMI™

Output increases in October but power shortages restrict growth

Summary

The seasonally adjusted HSBC Purchasing Managers' Index™ (PMI™) – a composite indicator designed to give a single-figure snapshot of operating conditions in the manufacturing economy – posted 52.9 in October, broadly unchanged from the reading of 52.8 in September, and signalling a further improvement in the health of the manufacturing sector.

Output in the Indian manufacturing sector expanded moderately in October, but persistent power shortages weighed on production. New orders increased, as has been the case since April 2009. The pace of expansion was marked and accelerated from September. According to respondents, order book volumes rose in tandem with stronger demand, increased marketing and maintained product quality. New export orders increased for the second successive month. The rate of expansion was solid and broadly in line with September's four-month high. Anecdotal evidence suggested that new export business growth was led by stronger international demand, the launch of new products and favourable exchange rate conditions.

Input price inflation in the Indian goods-producing sector persisted in October. Although sharp, the pace of increase was the slowest in 25 months. Part of the burden of input cost inflation was passed on to clients as output prices were increased again. That said, the rate of inflation was the slowest since November 2010.

Manufacturing firms signalled higher purchasing activity in October, amid reports of greater production. The pace of expansion was solid and the fastest since June. Meanwhile, staffing levels increased, marking an eight-month sequence of job creation. According to respondents, payroll numbers were raised to support new orders growth.

Pre-production inventories at manufacturing companies in India increased. The rate of accumulation was moderate, although the fastest in the current six-month sequence of expansion. Approximately 14% of respondents reported higher input inventories, citing greater production requirements. In contrast, stocks of finished goods were depleted. Anecdotal evidence suggested that powercuts impacted negatively on output and post-production inventories were subsequently used to meet demand requirements.

Backlogs of work in the Indian manufacturing sector were accumulated at a sharp rate during October. Persistent power shortages were mentioned by respondents as a factor leading to backlog accumulation.

Comment

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

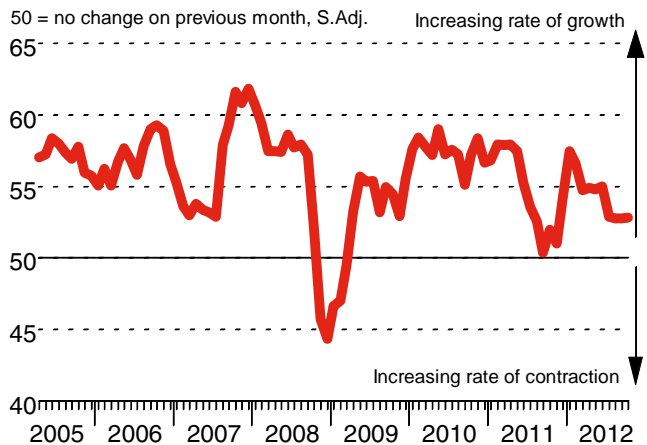
"Economic activity in the manufacturing sector picked up slightly thanks to firm new orders. However, insufficient power dampened output growth and led to an increase in outstanding work. Employment conditions remain strong, although the pace of hiring slowed a bit. Inflation eased notably with both output and input prices rising at a slower pace. Looking ahead, the recovery in manufacturing growth is likely to be slow and inflation is likely to stay elevated for a while still."

Key points

- New orders increase for the forty-third consecutive month
- Second successive monthly expansion in new export orders
- Output prices increase at slowest rate in 23 months

Historical Overview

HSBC India Manufacturing PMI



Sources: Markit, HSBC.

For further information, please contact:

HSBC

Leif Eskesen, Chief Economist for India & ASEAN
Telephone +65-6239-0840
Email leifeskesen@hsbc.com.sg

Rajesh Joshi
Telephone +91-22-2268-1695
Email rajeshjoshi@hsbc.co.in

Neha Hora
Telephone +91-22-2268-5337
Email nehahora@hsbc.co.in

Markit

Pollyanna De Lima, Economist
Telephone +44-1491-461-075
Email pollyanna.delima@markit.com

Caroline Lumley, Corporate Communications
Telephone +44-20-7260-2047
Mobile +44-781-581-2162
Email caroline.lumley@markit.com

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.

HSBC:

HSBC is one of the world's largest banking and financial services organisations. With around 6,900 offices in both established and faster-growing markets, we aim to be where the growth is, connecting customers to opportunities, enabling businesses to thrive and economies to prosper, and ultimately helping people to fulfil their hopes and realise their ambitions.

We serve around 60 million customers through our four global businesses: Retail Banking and Wealth Management, Commercial Banking, Global Banking and Markets, and Global Private Banking. Our network covers 84 countries and territories in six geographical regions: Europe, Hong Kong, Rest of Asia-Pacific, Middle East and North Africa, North America and Latin America. Our aim is to be acknowledged as the world's leading international bank.

Listed on the London, Hong Kong, New York, Paris and Bermuda stock exchanges, shares in HSBC Holdings plc are held by over 221,000 shareholders in 134 countries and territories.

About Markit:

Markit is a leading, global financial information services company with over 2,300 employees. The company provides independent data, valuations and trade processing across all asset classes in order to enhance transparency, reduce risk and improve operational efficiency. Its client base includes the most significant institutional participants in the financial market place. For more information please see www.markit.com

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

The intellectual property rights to the HSBC India Manufacturing PMI™ provided herein is owned by Markit Economics Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. *Purchasing Managers' Index™* and *PMI™* are trade marks of Markit Economics Limited, HSBC use the above marks under license. Markit and the Markit logo are registered trade marks of Markit Group Limited.