

HSBC India Manufacturing PMI™

Output growth weakens in January

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 53.2 in January, down from 54.7 in December. The latest reading signalled a further (albeit slower) improvement in the health of the Indian manufacturing sector.

Continuing the trend that started in April 2009, output at manufacturers in India rose during January. While solid, the rise in production was the slowest recorded in three months amid evidence from the survey panel that ongoing issues with the supply of power had restricted growth (albeit to a lesser degree than seen at times during 2012).

The volume of incoming new work expanded in January, the forty-sixth consecutive monthly increase recorded. Over one-fifth of the survey panel indicated higher levels of new orders, citing stronger demand and maintained product quality. Total new business rose solidly, although growth eased from December. Meanwhile, new export orders increased for the fifth consecutive month, and also at a solid rate. Panel members stated that demand from foreign clients was higher. In line with stronger sales, manufacturers in India increased their input buying in January. The overall rate of growth, although solid, eased to a three-month low.

A divergence was seen with regards to inventories as stocks of purchases were accumulated, but firms lowered their stocks of finished goods. Pre-production inventories rose for the ninth consecutive month, albeit only slightly. In contrast, post-production inventories were depleted as power shortages hampered production and inventories were used to satisfy demand requirements wherever possible.

Staffing levels in the Indian manufacturing sector increased during January, amid reports of higher workloads. That said, the pace of job creation was slight and unchanged from December. Nevertheless, backlogs of work were accumulated for a further month. Anecdotal evidence suggested that persistent powercuts resulted in higher levels of outstanding business.

Input and output prices both increased in January, with rates of inflation again marked. Input costs rose for the forty-sixth successive month, with respondents indicating that fuel and raw material prices had increased. Output charges were raised to protect margins in the face of higher costs.

Comment

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

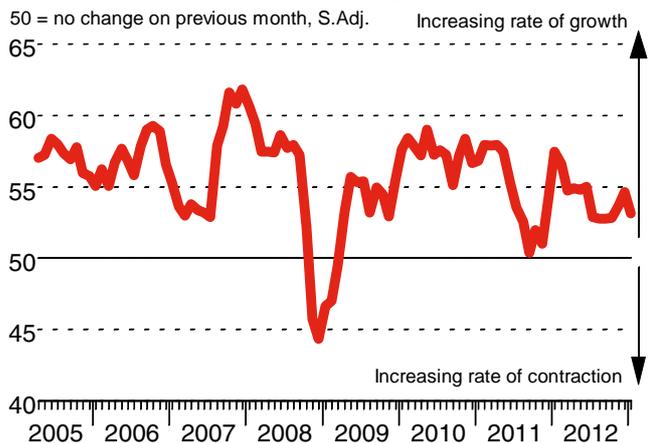
"The growth momentum in the manufacturing sector eased in January as a slower expansion in new orders and power outages slowed output growth. To meet new orders manufacturers still rely on a draw down in stocks of finished good, which should provide support for output growth in coming months as stocks are replenished. Encouragingly input and output price inflation continued to ease, albeit only gradually, supporting the case for RBI's cautious policy rate cut earlier this week."

Key points

- Powercuts hamper production growth
- New orders expand solidly, but at slower rate
- Inventories used to satisfy demand where possible

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 2,800 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.