HSBC India Manufacturing PMI™

Manufacturing operating conditions improve at slowest rate since November 2011 as power outages continue to hamper production

Summary

Indian manufacturing business conditions continued to improve in March, but persistent powercuts weighed on growth. Moreover, the volume of incoming new work increased moderately and at the slowest pace in 16 months. Export orders expanded slightly, with the rate of growth easing to the slowest in seven months.

The seasonally adjusted HSBC *Purchasing Managers' Index*TM (*PMI*TM) – a composite indicator designed to give a single-figure snapshot of operating conditions in the manufacturing economy – posted 52.0 in March (down from 54.2 in February), indicating an improvement in overall business conditions. However, the PMI was down to the lowest reading in 16 months.

March data signalled higher volumes of incoming new work in the Indian goods-producing sector. Growth in total new orders was, however, only moderate and the slowest in 16 months. Export orders rose slightly with the rate of expansion also easing. Output increased modestly, as persistent power shortages hampered production. The pace of growth was the slowest in 16 months

Subsequently, Indian manufacturers depleted their stocks of finished goods to meet order requirements. Post-production inventories, however, fell only slightly. In contrast, holdings of raw materials and semi-manufactured goods were accumulated, albeit slightly. Meanwhile, purchasing activity rose solidly, but at the slowest pace since October last year.

Average lead times in the Indian goods-producing sector lengthened for the third consecutive month, amid reports of powercuts and delayed payments to suppliers. Vendor performance deteriorated moderately, but at the fastest pace in over two years. Backlogs of work also rose, though only slightly. Meanwhile, firms increased their payroll numbers over the month. The rate of job creation was only moderate, but the fastest since last October

Input prices increased during March, as has been the case in each month since April 2009. The rate of cost inflation was solid, but eased to the slowest in 32 months. Anecdotal evidence suggested that raw materials had increased in price, with some mentions of unfavourable exchange rates. Subsequently, average tariffs rose, but the rate of increase was moderate and the slowest since October 2012. Monitored firms indicated that increased competition had prevented them from passing on to clients the full burden of cost inflation.

Comment

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

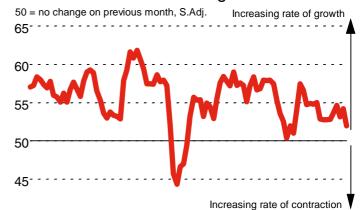
"Manufacturing activity lost momentum in March, with output growth slowing notably on the back of a deceleration in new orders and power outages. Inventories of finished goods were depleted to meet demand, partly due to the output disruptions caused by power cuts. This suggests that output could get a lift in coming months as inventories are replenished. Encouragingly, input and output price inflation eased. Even so, the scope for further monetary policy easing remains limited."

Key points

- Output expands at slowest pace in 16 months
- Growth in total new orders and export business eases
- Vendor performance deteriorates at fastest rate in over two years

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' IndexTM (PMITM)* 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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