

HSBC India Manufacturing PMI™

PMI points to a stagnation of Indian manufacturing sector during May

Summary

Operating conditions in the Indian manufacturing economy stagnated during May. The seasonally adjusted HSBC *Purchasing Managers' Index™* (PMI™) – an indicator derived from individual diffusion indices measuring changes in output, new orders, employment, suppliers' delivery times and stocks of purchases – fell from 51.0 in April to 50.1 and was at a 50-month low.

Reflective of weaker gains in incoming new work and persistent power outages, output decreased in May, the first decline registered since March 2009. That said, production fell only slightly. Order book volumes rose for the fiftieth consecutive month. The rate of expansion was, however, marginal and the slowest in that sequence. Panellists suggested that demand was maintained, but commented on increased competition for new work and tough market conditions overall, particularly at home. Encouragingly, foreign orders rose at an accelerated pace during May. Growth in export business was solid and the fastest since January. Monitored companies indicated strengthening demand from key export clients. Meanwhile, unfinished business levels increased, amid evidence of power and water shortages. Backlogs of work rose solidly and at the quickest pace in five months.

A divergence was seen with regards to input and output prices. Whereas purchase prices rose, output charges were lowered for the first time in four years. The rise in input costs was, nonetheless, slight and the slowest in the current 50-month inflationary period. Surveyed firms mentioned that oil, diesel, chemicals and machinery parts all had increased in price, but commented on lower prices paid for metals and plastic. Factory gate prices were discounted at a slight rate, with panel members reporting increased competition.

Companies operating in the Indian goods-producing sector signalled higher staffing levels during May, taking the current sequence of job creation to 15 months. The overall rate of increase remained slight. Hiring was mainly linked to increased levels of orders placed, but firms also commented on labour shortages.

As has been observed since April 2009, buying activity in the Indian manufacturing sector rose during May. The rate of expansion, however, was moderate and the slowest recorded since September 2011.

Holdings of raw materials and semi-manufactured goods were accumulated in May. The pace of inventory building was slight, but the second-fastest in the year-to-date so far.

Similarly, stocks of finished goods rose in May. The rate of increase was slight and broadly unchanged from one month previously.

Suppliers' delivery times in the Indian manufacturing sector lengthened during May, amid reports of powercuts and strikes. That said, vendor performance deteriorated to a lesser extent than in April.

Comment

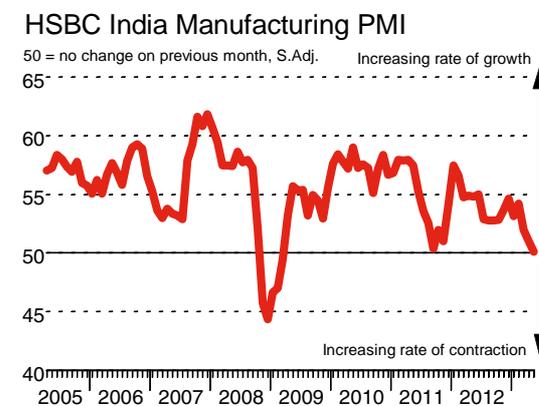
Commenting on the India Manufacturing PMI™ survey, Leif Eskesen, Chief Economist for India & ASEAN at HSBC said:

"Economic activity in the manufacturing sector slowed further in May as output contracted in response to softer domestic orders. In addition, power outages hampered output and led to a jump in backlogs of work as businesses struggled to meet orders. Inflation gauges also eased, and output prices even fell in sequential terms on the back of tougher competition and receding raw material prices. These numbers have heightened the probability that the RBI will fire another salvo at its June policy meeting."

Key points

- Production falls for first time since March 2009
- Growth in new orders weakest in current 50-month expansionary sequence...
- ... but export orders expand at fastest pace since January

Historical Overview



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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