## **HSBC Purchasing Managers' Index™ Press Release**

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# HSBC India Manufacturing PMI™

## Manufacturing output falls for second consecutive month

## **Summary**

The HSBC *Purchasing Managers' Index<sup>TM</sup>* (*PMI*<sup>TM</sup>) recorded above the no-change threshold for the fifty-first consecutive month in June. At 50.3, up slightly from 50.1 in May, the latest index reading was consistent with a marginal expansion of the country's manufacturing sector.

Total new orders fell for the first time since March 2009 during June, although marginally. Panel members commented that economic conditions in India were fragile, resulting in lower demand. There were also reports of increased competition for new work. Export business, however, rose at the sharpest rate since January as demand from key foreign clients strengthened. Orders from abroad expanded at consumer and intermediate goods producers, but in the investment goods sector a decline was registered.

Reduced output levels were recorded for the second month running in June, amid evidence of tougher economic conditions and persistent powercuts. That said, the overall pace of contraction was slight and eased since May. Production fell across all three monitored sub-sectors, with the fastest decline recorded at consumer goods producers.

Nevertheless, the quantity of items purchased for production rose in June, taking the current expansionary sequence to 51 months. The rise in input buying was solid, and picked up pace since May. Surveyed firms reporting higher buying activity linked this to increased foreign demand and forecasts of better economic conditions in the coming months.

On the price front, input cost inflation accelerated to the sharpest since February. Monitored companies indicated that raw material prices in general had increased over the month, with some comments of unfavourable exchange rates. After discounting their prices charged in the previous month, manufacturers attempted to pass on to their clients their increased cost burden during June. The rate of charge inflation was, however, modest as competition for new work persisted and weighed on pricing power.

Amid reports of power, raw material and water shortages, backlogs of work were accumulated again in June. Sharp rises were registered across all three monitored sub-sectors. Subsequently, manufacturers added to their workforce numbers in June. A lack of labour availability, however, restricted hiring. Whereas job creation was recorded in the intermediate and consumer goods sectors, a moderate contraction was registered at investment goods producers.

June data highlighted further accumulations of both preand post-production stocks. Holdings of raw materials and semi-manufactured goods, nonetheless, increased modestly with panellists citing a scarcity of key raw materials.

#### Comment

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

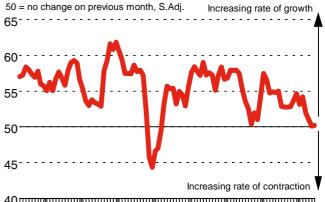
"Manufacturing activity was broadly flat in June. Output continued to contract due to power shortages, albeit less so than last month. Moreover, new orders contracted led by weaker domestic demand. At the same time, employment firmed and stocks of finished rose. Despite the moderate pace of growth, output prices picked up slightly and input prices rose more notably, partly in response to the depreciation of Rupee."

## **Key points**

- New orders decrease for first time in over four years, but exports expand solidly
- Powercuts and fragile economic conditions weigh on sector performance
- Fastest rise in employment since March

## **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<sup>TM</sup> (PMI<sup>TM</sup>)* 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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Purchasing Managers' Index<sup>TM</sup> (PMI<sup>TM</sup>) 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

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