HSBC Purchasing Managers' Index™ Press Release

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HSBC India Manufacturing PMI™

Indian manufacturing sector stagnates in July as output and new orders continue to fall

Summary

July's seasonally adjusted HSBC India Manufacturing *Purchasing Managers' Index*TM (PMI^{TM}) posted only fractionally above the 50.0 no-change threshold. Down from 50.3 in June to 50.1, the latest reading was indicative of a broad stagnation of manufacturing operating conditions in India.

Output fell for the third consecutive month in July, amid evidence of falling new orders, tough economic conditions and raw material shortages. The rate of decline, however, was fractional and eased since June. Lacklustre demand conditions had resulted in a further contraction of incoming new work, with sector data highlighting declines in the intermediate and investment goods sectors. Conversely, consumer goods producers signalled higher levels of new orders, but the rate of expansion was modest.

New export orders rose during July, taking the current expansionary sequence to 11 months. Panel members stated that foreign demand was maintained, but commented on increased competition. Subsequently growth of export business was modest and the weakest in three months.

Purchasing activity in the Indian manufacturing sector rose in July. That said, the pace of increase was marginal and the slowest in the current 52-month expansionary sequence. Weaker growth of input buying was mainly linked to falling new work intakes. Of the three monitored sub-sectors only one registered higher buying activity, namely consumer goods.

Manufacturers indicated slower supplier delivery times in July, suggesting that the depreciation of the rupee meant vendors were reluctant to import raw materials. Subsequently, stocks of purchases fell for the first time since April 2012. The rate of depletion was, however, only slight. Meanwhile, holdings of finished goods were broadly unchanged in July. In line with scarce raw materials at suppliers and powercuts, backlogs of work were accumulated for a further month in July. The rate of increase was solid, but the weakest in three months.

July data highlighted a further expansion of employment levels in the Indian manufacturing sector. The rate of job creation remained slight. Payroll numbers rose in the consumer goods sector, stagnated at intermediate goods producers and fell at investment goods firms.

Finally, inflationary pressures persisted in July. Output prices rose at the fastest rate since February, as firms attempted to pass on increased cost burdens.

Amid reports of higher prices paid for metals, chemicals, plastic and paper, overall input prices rose sharply in July, and at the strongest rate in ten months. Manufacturers indicated that imported raw material costs were greater, in particular due to a depreciation of the rupee.

Comment

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

"Activity in the manufacturing sector was broadly flat in July. Output fell by less, but order flows weakened led by slower growth in export orders. Moreover, inventory accumulation and employment growth slowed. Of concern, inflation pressures firmed for both input and output prices, partly on the back of higher imported inflation due to the weaker currency. The data suggests that the RBI will likely have to keep policy rates on hold for a while given lingering inflation risks and that the recently introduced currency stabilization measures will not be lifted anytime soon."

Key points

- Operating conditions broadly unchanged since June
- Third consecutive decline in production volumes
- New orders decrease, but exports rise for eleventh month running

Historical Overview

50 = no change on previous month, S.Adj.

HSBC India Manufacturing PMI

65 60 55 50 45

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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