HSBC Purchasing Managers' Index™ Press Release

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HSBC India Manufacturing PMI™

Manufacturing operating conditions deteriorate for first time in over four years

Summary

Business conditions in the Indian manufacturing sector deteriorated during August for the first time in over four years, with both output and new orders falling at faster rates. Export orders also declined, ending an 11-month sequence of growth.

The seasonally adjusted HSBC India Manufacturing *Purchasing Managers' Index*TM (PMI^{TM}) fell from 50.1 to 48.5 in August, indicating a moderate deterioration of business conditions. The latest index reading was the lowest in four-and-a-half years and the first sub-50.0 reading since March 2009.

Amid reports of fragile economic conditions and subdued client demand, new orders placed at Indian manufacturers fell solidly in August. Furthermore, the rate of contraction accelerated to the fastest since February 2009. Order book volumes across the intermediate goods sector decreased at a sharp and accelerated pace, while consumer goods producers registered a slight decline.

New business from abroad also fell, ending an 11-month sequence of growth. Anecdotal evidence suggested that competitive pressures increased and that demand from key export clients was weaker.

Consequently, Indian manufacturers reduced their production volumes for the fourth consecutive month in August and at the fastest rate in four-and-a-half years. Output fell at both investment and intermediate goods firms, with the latter recording the sharper decline. Correspondingly, stocks of finished goods decreased for the first time since March, albeit moderately.

Reflective of falling volumes of incoming new work, input buying decreased in August, ending a period of growth that lasted for over four years. The latest contraction in purchasing activity was broad-based, with all three monitored sub-sectors registering lower buying activity. Subsequently, pre-production stocks fell during the latest month. The rate of depletion was solid and the quickest in almost five years.

Encouragingly, Indian manufacturers continued to add to their workforce numbers in August. However, rates of job creation were slight across all three monitored categories.

Meanwhile, vendor performance deteriorated further in August. Firms associated longer delivery times with raw material shortages at suppliers and largely commented that the depreciation of the rupee against the US dollar had led to a reluctance among vendors to import raw materials.

Prices paid for inputs by Indian manufacturers rose in August, amid reports of a weaker rupee. The rate of cost inflation remained strong, but eased since July. In an attempt to pass on part of their increased cost burden, firms raised their selling prices again. However, competitive pressures limited manufacturers' pricing power and charges were raised only slightly.

Comment

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

"Manufacturing activity contracted in August for the first time since March 2009. This was led by a decline in new orders, especially export orders. Together with a draw-down in finished goods inventories, this led to a drop in output. Encouragingly, input and output price inflation slowed despite the weakening of the currency, which likely reflect the softening demand conditions and, therefore, declining pricing power. Notwithstanding the weak growth backdrop, the RBI will likely keep its liquidity tightening measures in place for a while still to help contain the depreciation of the currency. Combined with the heightened macroeconomic uncertainty, this will continue to weigh on growth in coming months."

Key points

- PMI drops to 48.5 in August (July: 50.1)
- Rates of contraction in output and new orders
- First decline in new export business for a year

Historical Overview

HSBC India Manufacturing PMI 50 = no change on previous month, S.Adj. Increasing rate of growth 65 60 55 Increasing rate of contraction 40 2005 2006 2007 2008 2009 2010 2011 2012 2013

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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