

HSBC India Manufacturing PMI™

PMI signals second successive monthly deterioration of operating conditions

Summary

Operating conditions across the Indian manufacturing sector deteriorated for the second consecutive month in September. However, both output and new orders contracted at slower rates. Still, faced with fewer projects, companies reduced their workforce numbers for the first time since February 2012.

Up from 48.5 in August to 49.6 in September, the seasonally adjusted HSBC India Manufacturing Purchasing Managers' Index™ (PMI™) indicated a marginal and slower deterioration of business conditions in India. However, the PMI quarterly average for Q3 was the lowest since Q1 2009.

September data pointed to a further contraction of manufacturing production in India, with panellists commenting on lower levels of incoming new work and economic instability. The overall rate of contraction was, however, marginal and eased since August.

Although new orders fell at a slower and marginal pace, the contraction of export business accelerated to the quickest in over two years. Anecdotal evidence suggested that a depreciation of the rupee versus the US dollar had resulted in higher prices paid for inputs and limited firms' ability to price competitively.

Subsequently, Indian manufacturers reduced their buying activity for the second month running in September. However, quantity of purchases fell only slightly and at a slower rate than that seen one month previously.

Sector data highlighted capital goods as the best performing sub-sector in September, with production, new orders and purchasing activity all expanding. Conversely, both consumer and intermediate goods producers posted falls in all of these variables.

Reflective of a further reduction in new order levels, Indian manufacturers cut their staffing levels in September. Despite being marginal, the latest fall ended a period of job creation that had lasted for one-and-a-half years.

Amid reports of a weaker currency, manufacturing firms reported higher prices paid for imported raw materials. Overall input costs rose sharply, with all three sectors covered by the survey signalling stronger rates of cost inflation in the latest month. Furthermore, the index measuring purchasing costs climbed to its highest mark in 15 months. Consequently, prices charged were raised further. The rate of charge inflation was, however, only slight and the slowest in three months.

A divergence was seen with regards to inventory levels in September. Pre-production inventories fell in line with lower purchasing activity, while holdings of finished goods were accumulated at a slight pace. Intermediate and capital goods producers recorded higher post-production inventories, while little change was signalled at consumer goods firms.

Comment

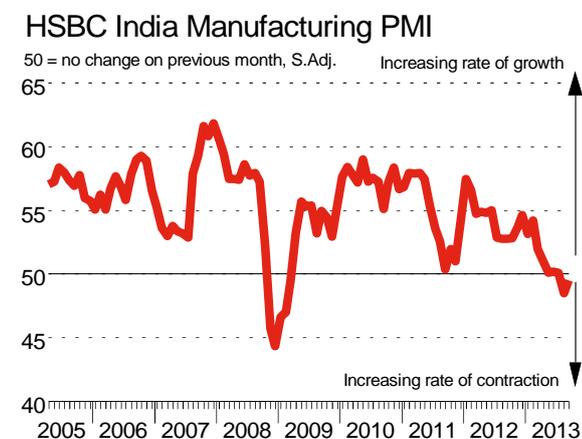
Commenting on the India Manufacturing PMI™ survey, Leif Eskesen, Chief Economist for India & ASEAN at HSBC said:

"Manufacturing activity continued to shrink in September, albeit at a slower pace. Order flows remain weak, especially export orders, and employment fell. Moreover, businesses cut back quantity and stocks of purchases. While output prices rose at a slower pace, input prices rose markedly, as the effects of the weaker exchange rate continue to pass through. Despite the weak growth readings, the build-up in underlying inflation pressures suggests that the RBI has to keep its inflation guards up."

Key points

- PMI remains below neutral 50.0 mark, but rises to 49.6 in September
- Output and new orders contract at slower rates
- Employment falls for first time in 19 months

Historical Overview



Sources: Markit, HSBC.

For further information, please contact:

HSBC

Leif Eskesen, Chief Economist for India & ASEAN

Telephone +65-6239-0840

Email leifeskesen@hsbc.com.sg

Rajesh Joshi

Telephone +91-22-2268-1695

Email rajeshjoshi@hsbc.co.in

Sejal Shah

Telephone +91-22-2268-1344

Email sejal1shah@hsbc.co.in

Markit

Pollyanna De Lima, Economist

Telephone +44-1491-461-075

Email pollyanna.delima@markit.com

Caroline Lumley, Corporate Communications

Telephone +44-20-7260-2047

Mobile +44-781-581-2162

Email caroline.lumley@markit.com

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.

HSBC Holdings plc:

HSBC is one of the world's largest banking and financial services organisations, with around 6,600 offices in both established and faster-growing markets. We aim to be where the economic growth is, connecting customers to opportunities, enabling businesses to thrive and economies to prosper, and ultimately helping people to fulfil their hopes and realise their ambitions.

We serve around 55 million customers through our four global businesses: Retail Banking and Wealth Management, Commercial Banking, Global Banking and Markets, and Global Private Banking. Our network covers 80 countries and territories in six geographical regions: Europe, Hong Kong, Rest of Asia-Pacific, Middle East and North Africa, North America and Latin America. Our aim is to be acknowledged as the world's leading international bank.

Listed on the London, Hong Kong, New York, Paris and Bermuda stock exchanges, shares in HSBC Holdings plc are held by about 216,000 shareholders in 130 countries and territories.

About Markit:

Markit is a leading, global financial information services company with over 3,000 employees. The company provides independent data, valuations and trade processing across all asset classes in order to enhance transparency, reduce risk and improve operational efficiency. Its client base includes the most significant institutional participants in the financial market place. For more information please see www.markit.com

About PMIs:

Purchasing Managers' Index[™] (*PMI*[™]) 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

The intellectual property rights to the HSBC India Manufacturing *PMI*[™] provided herein is owned by Markit Economics Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. *Purchasing Managers' Index*[™] and *PMI*[™] are trade marks of Markit Economics Limited, HSBC use the above marks under license. Markit and the Markit logo are registered trade marks of Markit Group Limited.