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HSBC India Manufacturing PMI™

New order growth strengthens to six-month high in December

Key findings:

- New work intakes rise strongly, reflective of greater client demand
- Output growth accelerates sharply since November
- Job creation for first time in five months

December survey data, compiled by Markit for HSBC, indicated a solid improvement in Indian manufacturing sector business conditions. The rate of improvement was the strongest since June, with new orders and output increasing at six- and four-month highs respectively. Concurrently, Indian manufacturers hired additional staff, ending a four-month period of job losses, while the rate of input price inflation remained strong.

The seasonally adjusted HSBC *Purchasing Managers' Index™ (PMI™)* – a headline index designed to measure the overall health of the manufacturing sector – registered 54.2 in December, up from 51.0 in November, and indicated the strongest improvement in business conditions since June. Overall, the rate of increase was solid, but nonetheless remained weaker than the long-run series average.

Indian manufacturers reported a further rise in new business during December. The latest expansion in new work intakes was the thirty-third in successive months. Moreover, growth was strong and the fastest since June. Incoming new work from abroad also rose in December, with the rate of increase solid overall. The increase in total new business was attributed to stronger client demand.

Reflective of larger new order volumes, Indian manufacturing companies stepped up production during December. Output increased solidly, with the rate of growth accelerating since November to a four-month high. Nonetheless, backlogs increased for the third consecutive month. Stocks of finished

goods were accumulated only marginally.

Monitored companies increased their input buying on average in December. Anecdotal evidence generally attributed higher purchase volumes to greater production requirements. Stocks of purchases were also accumulated during the latest survey period.

Lead times on inputs shortened during December, in contrast to the lengthening that had been registered in the previous three months. Respondents suggested that suppliers were processing orders faster during the latest survey period. However, the improvement in vendor performance was only marginal overall.

Employment in India's manufacturing sector increased in December, ending the period of job losses that began in August. However, the rate of employment growth was only slight, with the vast majority of panellists keeping staff headcounts unchanged from November.

Input costs faced by Indian manufacturers rose further during the latest survey period. Raw materials and petrol were particularly mentioned as having increased in price. Overall, the rate of input cost inflation remained strong and above the long-run series average, despite slowing slightly since November.

Firms partly passed on greater cost burdens to clients by raising their output charges in December. Average selling prices rose strongly, with the rate of increase the fastest in seven months.

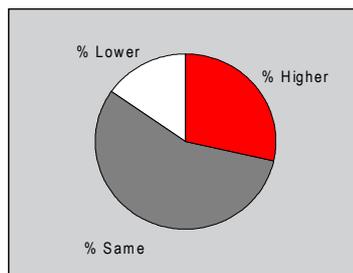
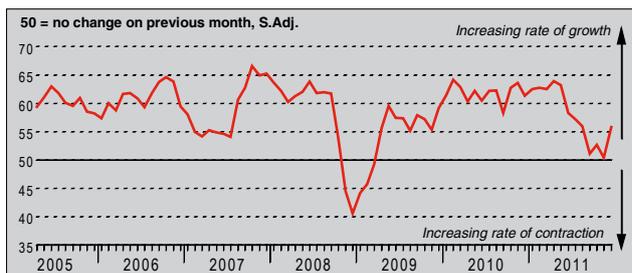
HSBC India *Purchasing Managers' Index™ (PMI™)*



The HSBC India *Purchasing Managers' Index™ (PMI™)* is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, employment, suppliers' delivery times and stocks of goods purchased. A reading of the PMI below 50.0 indicates that the manufacturing economy is generally declining; above 50.0, that it is generally expanding. A reading of 50.0 signals no change. The greater the divergence from 50.0, the greater the rate of change signalled by the index. *Purchasing Managers' Index™* and *PMI™* are trade marks of Markit Economics Limited, HSBC use the above marks under licence. Markit and the Markit logo are registered trade marks of Markit Group Limited.

Output Index

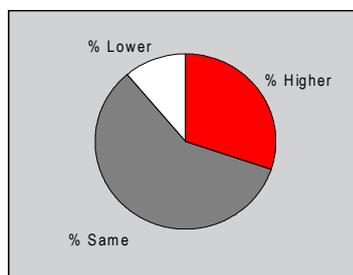
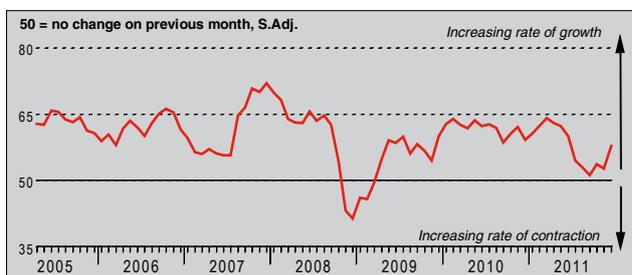
Q. Please compare your production/output this month with the situation one month ago.



Production at Indian manufacturers increased in December, extending the current period of growth that began in April 2009. Approximately 29% of surveyed firms reported higher output, compared with 15% that registered a decline. Expansion of output was generally linked to a rise in volumes of new work. Noticeably, the rate of output growth accelerated sharply from the 32-month low recorded in November. Overall, the latest increase in production was marked and the fastest in four months.

New Orders Index

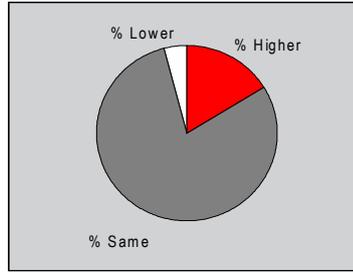
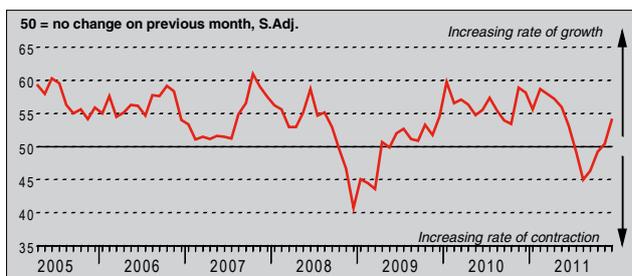
Q. Please compare the level of new orders received (India and export) this month with the situation one month ago.



Indian manufacturing companies received a larger volume of new orders in December, with expansion now recorded since April 2009. This was signalled by the seasonally adjusted New Orders Index posting above the 50.0 no-change mark that separates growth from contraction. Anecdotal evidence provided by panellists generally attributed the rise in new work intakes to greater client demand. Notably, the index rose by approximately 5 points since November, suggesting growth was the fastest in six months during December.

New Export Orders Index

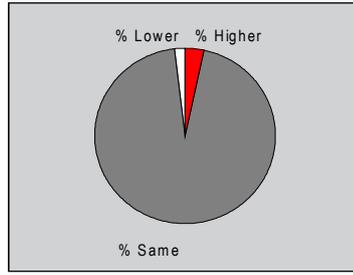
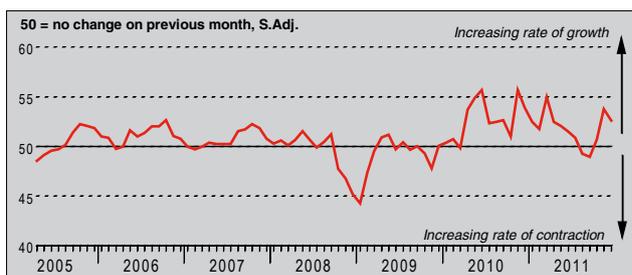
Q. Please compare the level of new export orders received this month with the situation of one month ago.



New export orders received by firms operating in India's manufacturing sector increased for the second consecutive month in December. The rate of growth quickened since the previous survey period and was solid overall. Around 16% of monitored companies reported an increase in new work from abroad (while only 4% recorded a decrease), and largely linked the rise to greater demand from foreign clients.

Backlogs of Work Index

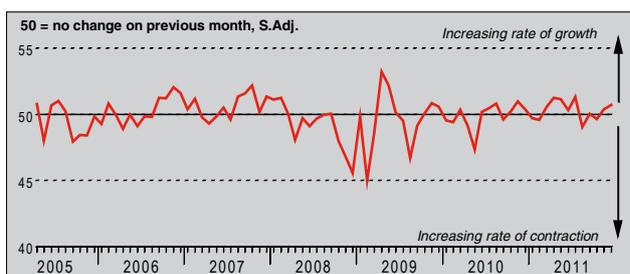
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Outstanding business was accumulated by Indian manufacturers for the third month running in December. A number of monitored companies attributed the rise in work-in-hand to recent power cuts. While the latest rate of increase was above the long-run series average in December, it nonetheless eased since November to a moderate pace.

Stocks of Finished Goods Index

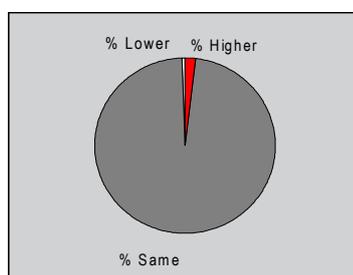
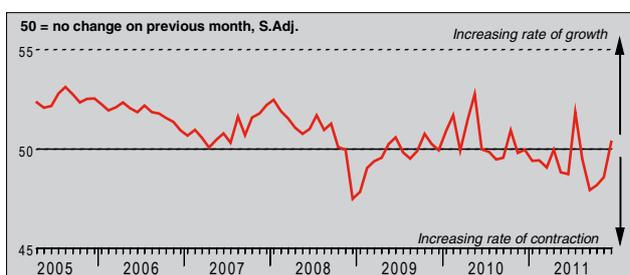
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Panellists increased their inventories of finished goods in December, as signalled by the seasonally adjusted Stocks of Finished Goods Index posting above the 50.0 no-change level that separates accumulation from depletion. That said, the index was only slightly above this threshold, with the vast majority of respondents (approximately 95%) indicating no-change in post-production inventories since November.

Employment Index

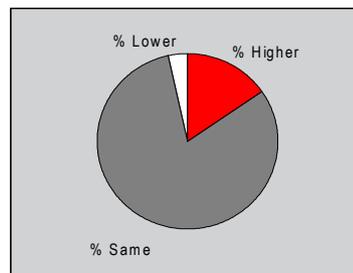
Q. Please compare the level of employment at your unit with the situation one month ago.



Indian manufacturing companies hired additional staff in December, ending the period of job losses that began in August. Where a rise in employment was indicated, anecdotal evidence generally attributed this to greater production requirements. Nonetheless, only 2% of survey respondents added to their payroll during December. Subsequently, job creation was only marginal overall.

Output Prices Index

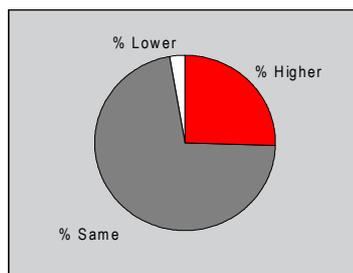
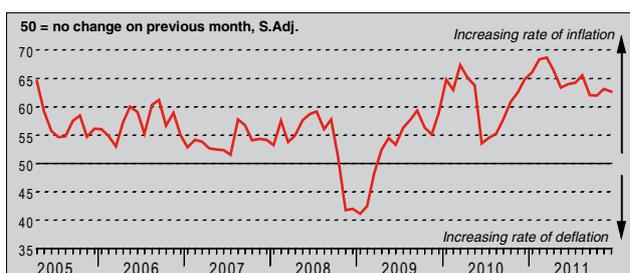
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Firms operating in India's manufacturing sector raised their selling prices further in December. Higher output charges have been reported in each month since September 2009. The latest rise in factory gate prices was strong and the fastest in seven months. A number of monitored companies commented that output prices were increased as they partly passed on higher input costs to clients.

Input Prices Index

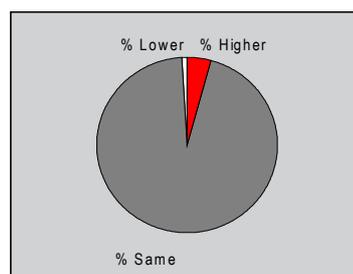
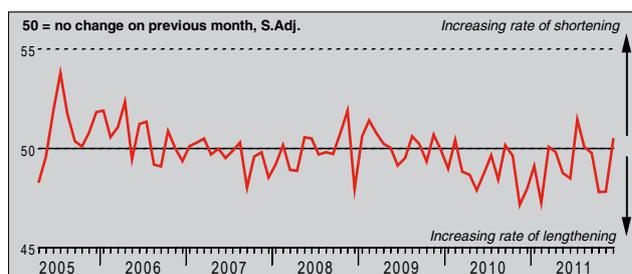
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Input costs rose again in December, with panellists particularly mentioning raw materials and petrol as having increased in price. Just over one-quarter of respondents reported larger cost burdens compared with November, while only 3% saw a reduction. Although the rate of input price inflation eased slightly since the previous survey period, it remained elevated and above the historic series average.

Suppliers' Delivery Times Index

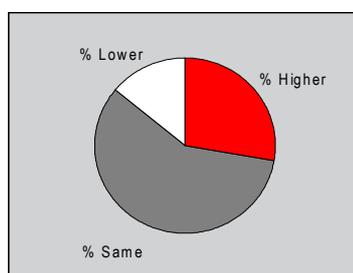
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Suppliers' delivery times shortened in December, in contrast to the lengthening lead times that had been registered in each of the past three months. This was indicated by the seasonally adjusted Suppliers' Delivery Times Index registering above the 50.0 no-change threshold that separates an improvement from a deterioration in vendor performance. Firms suggested that delivery times were shorter as suppliers were processing orders faster during the latest survey period.

Quantity of Purchases Index

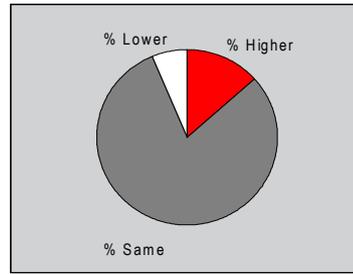
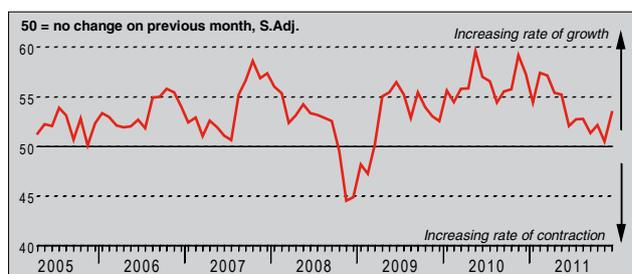
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Indian manufacturing companies bought a larger amount of inputs in December compared with the previous month. Input buying has now risen in each survey period since April 2009. Approximately 28% of panellists increased their purchasing activity, generally attributing this to larger production requirements. Overall, the rate of increase was marked and the fastest in five months.

Stocks of Purchases Index

Q. Please compare your stocks of purchases (in units) with the situation one month ago.



December data signalled a further accumulation of input inventories at Indian manufacturers. Stocks of purchases have increased in each month since March 2009, with the latest rise solid and stronger than that registered in November. Approximately 13% of panellists reported a rise in pre-production inventories, citing greater production requirements as the main contributor to the increase.

Notes on the Data and Method of Presentation

The Purchasing Managers' Index is based on data compiled from monthly replies to questionnaires sent to purchasing executives in around 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.

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