

HSBC India Manufacturing PMI™

Indian manufacturing sector business conditions improve at fastest rate in eight months

Key findings:

- New order and output growth accelerate markedly at start of 2012
- Employment little changed
- Input cost and output price inflation remains elevated

January data showed a further acceleration in the rate of Indian manufacturing sector growth. This was driven by faster rises in both new business and output. Backlogs of work continued to rise, indicating ongoing constraints on capacity, although employment was broadly unchanged. Meanwhile, input cost inflation accelerated slightly to a five-month high, with the increase in output prices remaining sharp in the context of historical data.

The seasonally adjusted HSBC *Purchasing Managers' Index*™ (PMI™) – a headline index designed to measure the overall health of the manufacturing sector – registered 57.5 in January, up from 54.2 in December. The latest reading pointed to the strongest improvement in business conditions since May 2011. Furthermore, growth was faster than the long-run trend.

Manufacturers in India reported a further increase in new business received during January. The rate of expansion accelerated for a second month running, and was the fastest in eight months. Panellists commented that a general improvement in demand and market conditions had led to the latest rise in new order volumes. Growth of new export business also quickened in the latest survey period, but to a lesser extent. Anecdotal evidence suggested that difficult economic conditions and increased competition in some markets had limited gains in new export orders.

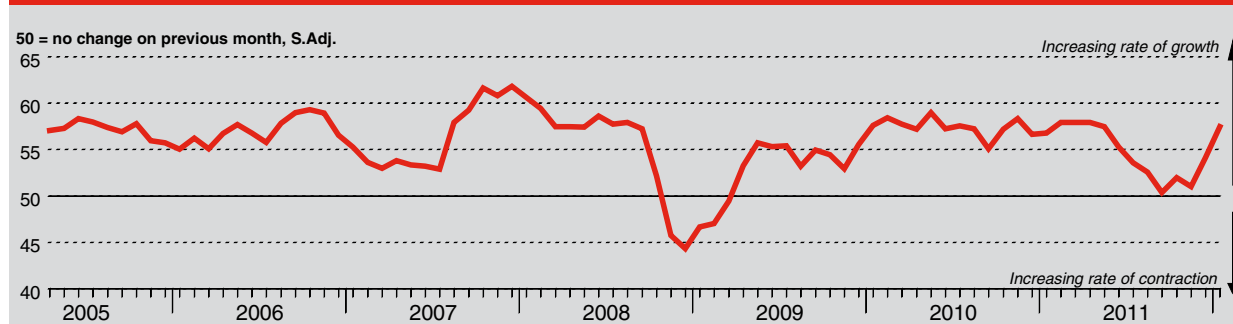
A stronger rise in output was reported in line with faster new order growth. Backlogs of work continued to increase, but at a slower rate. Stocks of finished goods increased for a third consecutive month, with the rate of accumulation the strongest in this sequence. Anecdotal evidence suggested that growth was in line with higher production and to meet increased new order obligations.

January data signalled a broadly stable level of employment in the Indian manufacturing sector. The overwhelming majority of respondents indicated that staffing levels at their units were unchanged on the month.

Reflective of sharp rises in both new orders and output, purchasing activity increased substantially during January. Despite this, suppliers' delivery times were reported to be largely consistent with those in December. Stocks of purchases rose at a marked rate that was the fastest since March 2011.

Input prices faced by Indian manufacturers increased substantially during January. Higher raw material costs were cited as the main driver of input price inflation. The rate of increase was slightly faster than in December and strong in the context of historical data. Subsequently, manufacturers raised their output prices again. The rate of charge inflation was marked and above the long-run series trend.

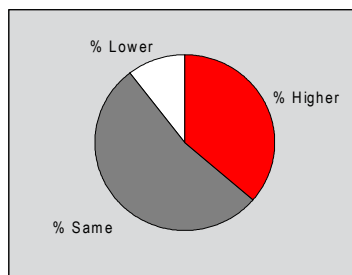
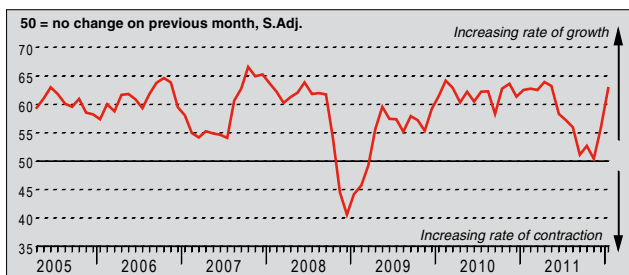
HSBC India *Purchasing Managers' Index*™ (PMI™)



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

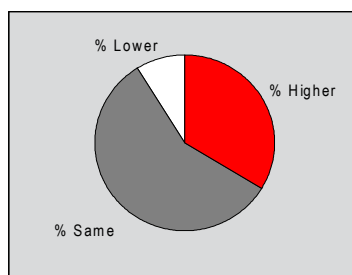
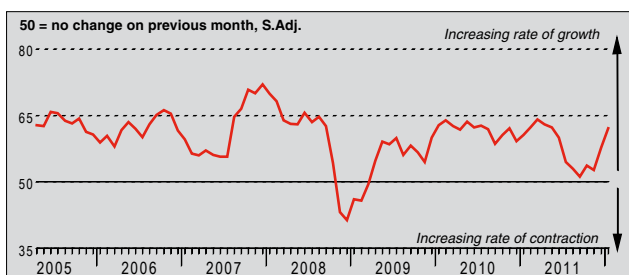
Q. Please compare your production/output this month with the situation one month ago.



January data signalled a substantial increase of output in the Indian manufacturing sector. With approximately 36% of panellists reporting an increase in production, compared with around 11% noting a fall, the rate of growth accelerated markedly since December to the strongest since May 2011. Those respondents indicating a higher level of output on the month attributed the rise to a sharp expansion of new orders received.

New Orders Index

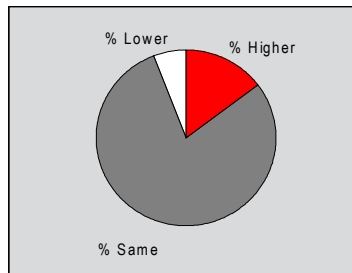
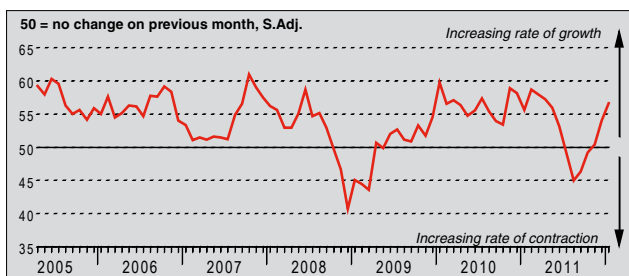
Q. Please compare the level of new orders received (India and export) this month with the situation one month ago.



New orders received by manufacturers in India increased in January. Moreover, with approximately one-third of respondents registering an increase in new work intakes, the rate of expansion accelerated for a second successive survey period to the strongest in eight months. Anecdotal evidence suggested that a general improvement in demand and market conditions had boosted new order volumes.

New Export Orders Index

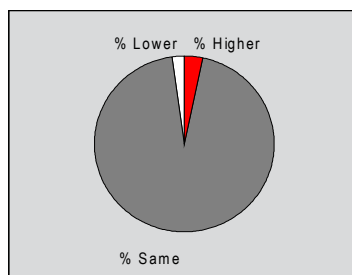
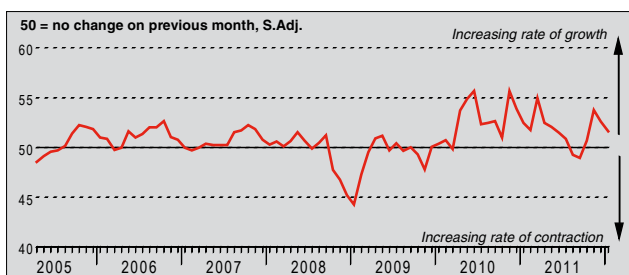
Q. Please compare the level of new export orders received this month with the situation of one month ago.



Indian manufacturers reported a marked rise in new export orders received during January, extending the sequence of sustained growth to three months. Moreover, the rate of expansion accelerated for a second consecutive survey period to the fastest since April 2011. However, a number of panellists noted that difficult economic conditions in some export markets and increased competition had limited the extent of the rise.

Backlogs of Work Index

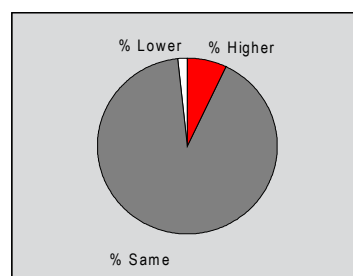
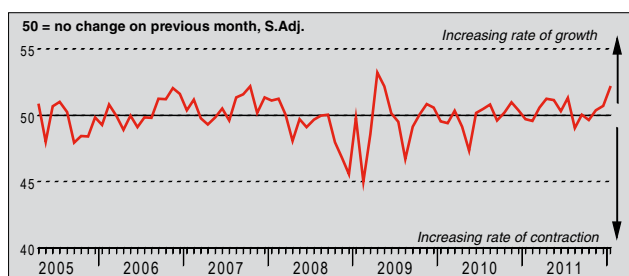
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Backlogs of work at manufacturers in India increased during January, with rises now reported in each of the last four months. However, the rate of accumulation was modest, with the vast majority of respondents (approximately 95%) indicating no change in outstanding business since December. Where an increase was recorded, this was attributed to a strong rise in new orders received and labour shortages.

Stocks of Finished Goods Index

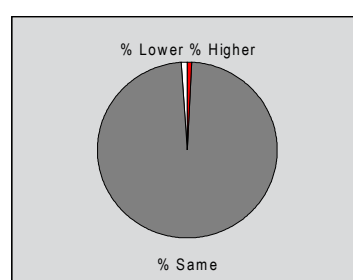
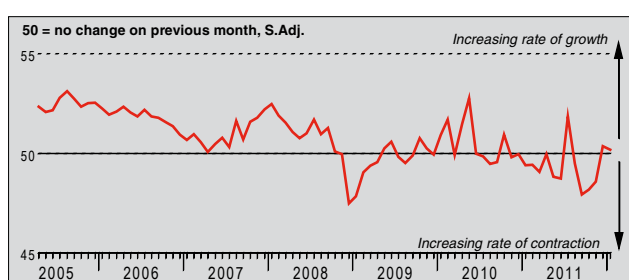
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Stocks of finished goods at manufacturers in India increased for a third month running in January. The rate of accumulation was modest, but the strongest in this period. Panellists noting a rise in post-production inventories commented that this was in line with growth of production and to meet higher new order obligations.

Employment Index

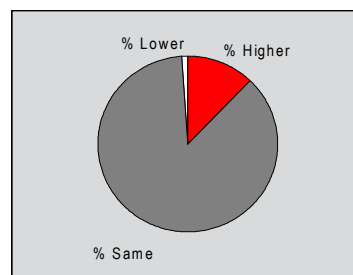
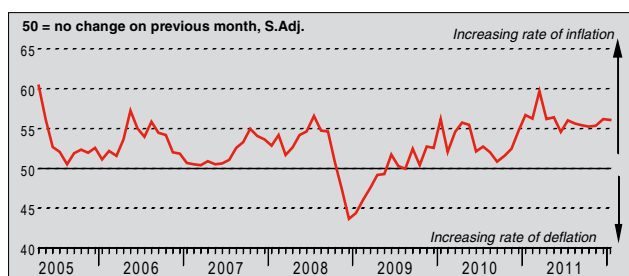
Q. Please compare the level of employment at your unit with the situation one month ago.



The seasonally adjusted Employment Index posted fractionally above the 50.0 no-change threshold in January, signalling a negligible increase of staffing levels in the Indian manufacturing sector. Highlighting this, the overwhelming majority of respondents (98%) indicated that employment at their companies was unchanged since December. This followed a slight rise in staffing levels in the previous survey period.

Output Prices Index

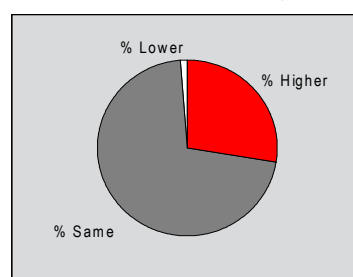
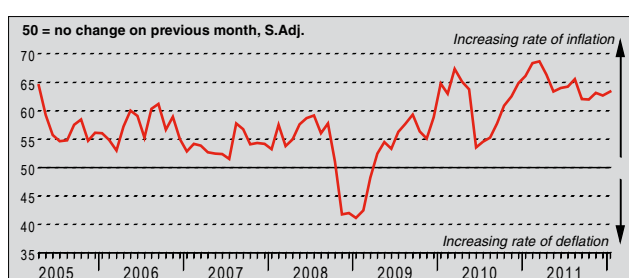
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Indian manufacturers reported a marked rise in their prices charged during January. Those noting an increase commented that this reflected a further rise in input costs. The latest rate of output price inflation was broadly unchanged from December, and remained marked in the context of historical data. Charges have now increased in each month since September 2009.

Input Prices Index

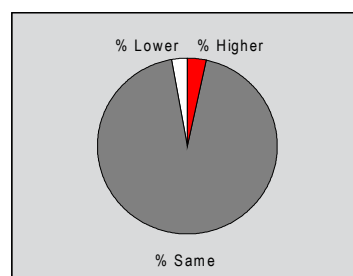
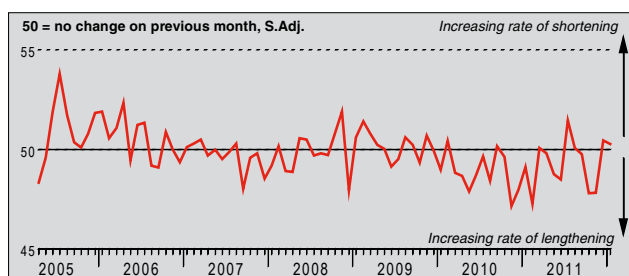
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Input prices faced by manufacturers in India increased substantially in January. With approximately 28% of panellists noting higher cost burdens compared with the previous month, the rate of cost inflation accelerated slightly to the fastest since August 2011 and was markedly above the long-run series trend. Higher raw material prices were cited as the main drivers of the latest rise in input prices.

Suppliers' Delivery Times Index

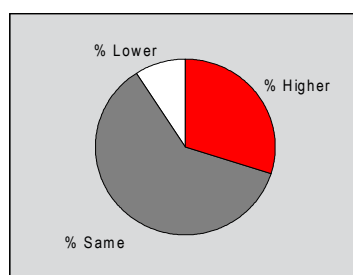
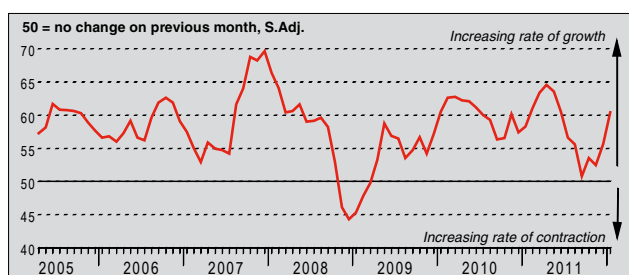
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Indian manufacturers reported a negligible improvement in suppliers' delivery times during January. Highlighting this, the vast majority of panellists (approximately 94%) indicated that vendor performance was unchanged since December. This was the second successive month where lead times were little changed, with only a slight improvement registered in December.

Quantity of Purchases Index

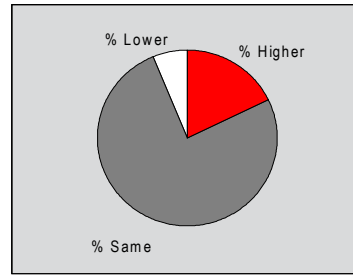
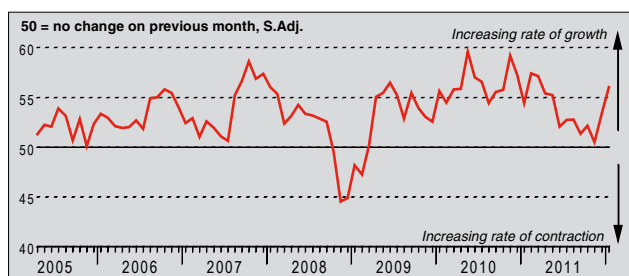
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



January data signalled a substantial increase in purchasing activity at Indian manufacturers. With approximately 30% of respondents noting a rise in purchase volumes compared with 9% reporting a decline, the rate at which input buying increased accelerated solidly on the month. This was in line with sharper expansions of both output and new orders.

Stocks of Purchases Index

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



Stocks of purchases at manufacturers in India increased again in January, extending the sequence of sustained growth to nearly three years. With approximately 18% of panellists noting a rise in pre-production inventories, compared with only 6% recording a fall, the rate of accumulation was marked and the strongest since March 2011. The increase in stocks of purchases was attributed to growth of input buying.

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.

Warning

The intellectual property rights to the HSBC India Manufacturing PMI provided herein is owned by Markit Group 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 licence. Markit and the Markit logo are registered trade marks of Markit Group Limited.