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HSBC India Manufacturing PMI™

Further strong improvement in Indian manufacturing sector business conditions during February

Key findings:

- Output growth weakens slightly, but new orders rise at strongest rate in ten months
- Employment falls, despite evidence of capacity constraints
- Output price inflation up to strongest since March 2011

February data showed an improvement in Indian manufacturing sector operating conditions. However, the rate of increase eased slightly. While new order growth accelerated, the expansion in output moderated, contributing to the weaker rise in overall business conditions. Furthermore, employment decreased in the latest survey period, despite evidence of capacity constraints in the sector. This was highlighted by a further increase in backlogs of work. Meanwhile, input cost inflation remained strong, and output prices rose at the fastest rate since March 2011.

The seasonally adjusted HSBC *Purchasing Managers' Index*TM (PMI^{TM}) – a headline index designed to measure the overall health of the manufacturing sector – registered 56.6 in February, down slightly from January's eight-month high of 57.5. Nonetheless, the latest reading pointed to a marked improvement in business conditions that was stronger than the long-run trend.

Indian manufacturers reported a substantial increase in new business during February. Moreover, the rate of growth strengthened slightly to the fastest since April 2011. Panellists commented that improved demand had boosted the expansion in overall new orders. A rise in new export business was recorded for the fourth successive month, although the increase weakened since January. This reportedly reflected fragile economic conditions in key export markets.

In line with the strong rise in new business, output also increased sharply during February. However, the rate of expansion moderated. Subsequently, backlogs of work rose for the fifth consecutive month.

February data signalled a reduction of employment in the Indian manufacturing sector, compounding pressure on operating capacity. Panellists again commented that a lack of suitable labour to fill vacant positions had led to the fall in staffing levels. Nonetheless, the vast majority of respondents noted no change in employment on the month.

Growth of purchasing activity strengthened in February, in line with a faster expansion of new orders. However, the accumulation of stocks of purchases slowed. Manufacturers noted that, in some cases, existing inventories had been utilised to meet output requirements due to the high price of inputs. Suppliers' delivery times were reported to have lengthened marginally.

Input prices faced by Indian manufacturers continued to rise at an historically marked rate in February, with higher raw material costs cited as the main driver of inflation. Nonetheless, the latest increase was a 17-month low. In contrast, output price inflation accelerated to the fastest since March 2011. Anecdotal evidence suggested that attempts to pass on higher costs had led to the rise in charges.



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 example. 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.

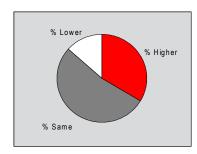




Output Index

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



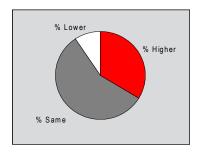


Output in the Indian manufacturing sector increased substantially during February, with growth now recorded in each month since April 2009. Roughly one-third of panellists noted a higher level of output since January, attributing this to a rise in new orders. The rate of expansion slowed slightly since January, but remained the second-fastest in nine months and above the series average.

New Orders Index

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



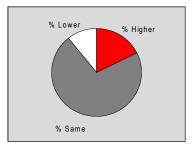


February data signalled a strong rise in new business received by manufacturers in India. Moreover, the rate of growth accelerated slightly since January to reach its fastest in ten months. Anecdotal evidence suggested that improved client demand had helped to boost new orders. New work intakes have now increased for 35 successive months.

New Export Orders Index

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



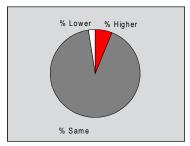


Indian manufacturers reported a rise in new export orders received during February, extending the sequence of sustained expansion to four months. Approximately 18% of respondents registered a higher level of new work intakes from abroad. However, the rate of growth slowed to the weakest since November 2011. Panellists commented that ongoing fragile economic conditions in key export markets limited the improvement in demand.

Backlogs of Work Index

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



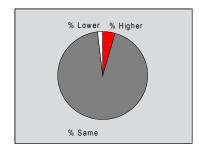


Backlogs of work at manufacturers in India increased for a fifth consecutive month in February, signalling that capacity constraints persisted. Panellists commented that the rise in new work intakes and production delays had added to levels of outstanding business. Nonetheless, the rate of accumulation was modest, with the vast majority of respondents (approximately 91%) noting no change in backlogs since January.

Stocks of Finished Goods Index

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



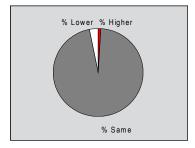


Stocks of finished goods at manufacturers in India increased modestly during February. The rate of accumulation slowed slightly since January, but remained above the series average. Panellists noting a rise in post-production inventories attributed this to higher output and attempts to boost stocks to accommodate stronger new order growth.

Employment Index

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



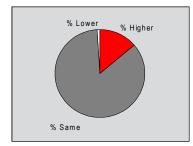


February data signalled a reduction of employment in the Indian manufacturing sector. This followed two months where staffing levels had increased slightly. Anecdotal evidence suggested that lower employment generally reflected a lack of suitable labour to fill vacant positions. However, the rate of job cuts was marginal, with the vast majority of respondents (approximately 96%) noting no change in staffing levels on the month.

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.



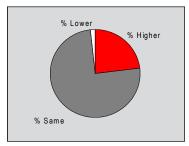


Indian manufacturers reported a marked rise in their prices charged during February, with increases now recorded in each month over the last two-and-a-half years. Furthermore, the rate of charge inflation strengthened to the fastest since March 2011 and was sharp in the context of historical data. Panellists commented that output prices had been raised in order to pass on higher input costs.

Input Prices Index

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

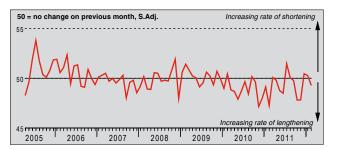


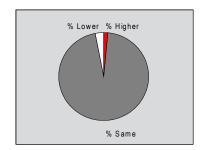


Input costs faced by manufacturers in India increased substantially during February. Higher raw material prices were predominantly cited as the main driver of cost inflation. Some panellists also noted that demand for inputs had outstripped supply, leading suppliers to increase their charges. While remaining strong in the context of historical data, the latest rise in input prices was the weakest since September 2010.

Suppliers' Delivery Times Index

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



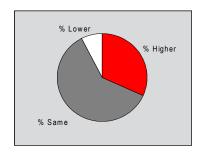


A marginal reduction in suppliers' delivery times was reported during February, as indicated by the seasonally adjusted index posting slightly below the 50.0 no-change threshold. Where a deterioration in vendor performance was indicated, panellists commented that this reflected shortages of materials and capacity constraints at suppliers. However, the vast majority of respondents (approximately 95%) noted no change in lead times since January.

Quantity of Purchases Index

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

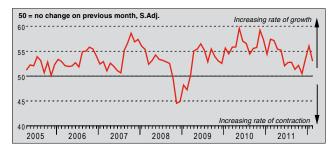


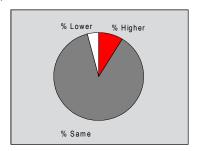


Growth of purchasing activity at Indian manufacturers accelerated to a nine-month high in February, with approximately 32% of panellists noting a rise since January. Anecdotal evidence suggested that the latest expansion in input buying was in line with further increases in both new orders and output. Purchase volumes have now risen in each of the last 35 months.

Stocks of Purchases Index

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





Indian manufacturers reported a solid increase in stocks of purchases in February. Higher inventories have now been registered in each month over the last three years. However, the latest accumulation slowed and was slightly weaker than the series average. Panellists commented that the rate of increase slowed as stocks of purchases had been partially utilised to help support production requirements due to high purchase costs.

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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