

HSBC India Manufacturing PMI™

Indian manufacturing operating conditions improve at slowest rate of 2012 so far

Key findings:

- Output and new order growth weaken, as power cuts lead to capacity constraints
- Backlogs rise at fastest pace in survey history
- Employment increases marginally

March data signalled a further improvement in Indian manufacturing sector operating conditions. However, the rate of growth eased for a second month running to the weakest of the year so far. Slower expansions of both new orders and output were the main contributors to the overall weaker improvement in business conditions. However, as power cuts were reported to have impacted capacity, backlogs of work accumulated at a marked rate. Meanwhile, input costs rose strongly, leading to a further increase in output prices.

The seasonally adjusted HSBC *Purchasing Managers' Index™* (PMI™) – a headline index designed to measure the overall health of the manufacturing sector – registered 54.7 in March, down from February's 56.6. The latest reading pointed to a solid improvement in business conditions, although growth was below the long-run trend.

Indian manufacturers reported a marked rise in new business received during March. However, the rate of expansion was the weakest in three months. Anecdotal evidence suggested that power cuts and raw material shortages had limited manufacturers' ability to take on new business and customers' propensity to place orders – despite a general improvement in demand. In contrast new export order growth gained pace in March.

With the expansion in output restricted, backlogs of work accumulated at a marked pace that was the fastest in the

series history. Stocks of finished goods rose only modestly, with the vast majority of respondents noting no change in post-production inventories since February.

March data signalled a marginal rise of employment in the Indian manufacturing sector. Job creation has now been registered in three of the last four months. Where an increase in staffing levels was indicated, this was attributed to higher output requirements.

The rate at which purchasing activity rose was marked, but slowed during March. This was in line with weaker expansions in production and new orders. Nonetheless, suppliers' delivery times lengthened again, and to a greater extent than in February. Panellists commented that power cuts had impeded deliveries, and this was compounded by some shortages of raw materials. Stocks of purchases rose again in order to accommodate growth of output.

Input prices faced by Indian manufacturers increased substantially during March. Higher raw material prices were cited as the main driver of inflation. The latest rise in costs was the second-slowest in 17 months, but remained elevated in the context of historical data. Subsequently, manufacturers aimed to pass on higher input prices to customers by raising their prices charged. However, the rate of charge inflation slowed to a 16-month low.

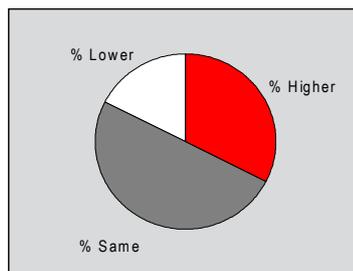
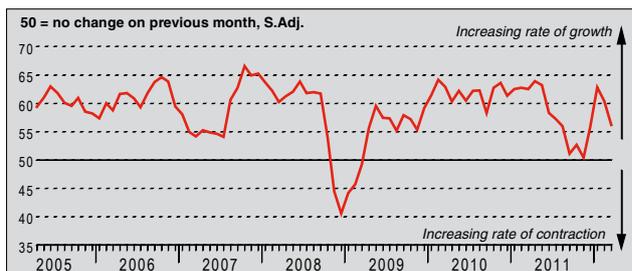
HSBC India *Purchasing Managers' Index™* (PMI™)



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

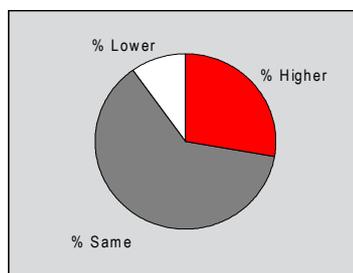
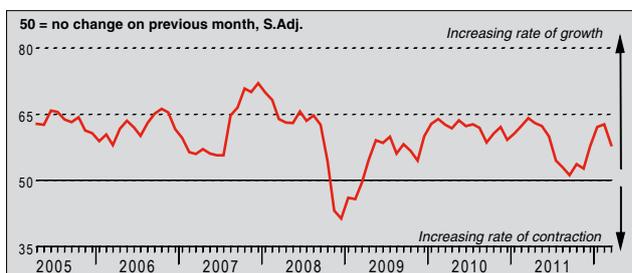
Q. Please compare your production/output this month with the situation one month ago.



Indian manufacturers reported a marked rise in output during March, extending the sequence of sustained monthly growth to three years. Just under one-third of panellists noted a higher level of production compared to the previous survey period, attributing this to a further increase in new orders. However, the rate of expansion slowed to a three-month low and was below the historical series average. A number of respondents indicated delays in production due to power cuts and, in some cases, raw material shortages.

New Orders Index

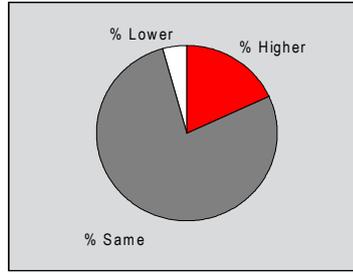
Q. Please compare the level of new orders received (India and export) this month with the situation one month ago.



March data signalled a marked rise in new business received by manufacturers in India. However, with approximately 28% of respondents registering an increase in new orders, the rate of expansion slowed from February's 10-month high and was below the long-run trend. Panellists commented that power cuts and raw material shortages/price rises had limited their ability to take in new business, partly offsetting a general improvement in client demand.

New Export Orders Index

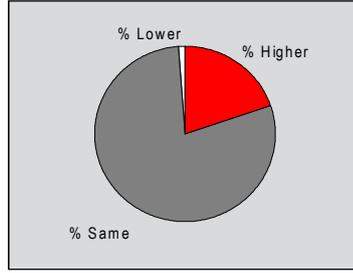
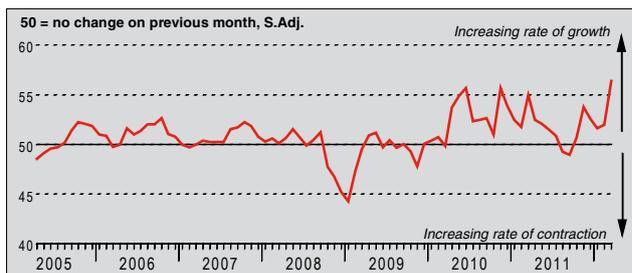
Q. Please compare the level of new export orders received this month with the situation of one month ago.



Indian manufacturers reported an increase in new export business received during March, with growth now recorded in each of the last five survey periods. With approximately 18% of panellists noting a higher volume of new export orders compared with 4% registering a decrease, the rate of expansion was marked, and faster than in the previous survey period. Where a rise in new exports was indicated, this was attributed to strengthening demand in overseas markets and the good quality of products provided.

Backlogs of Work Index

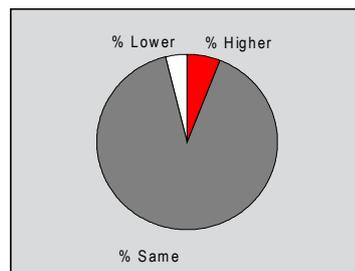
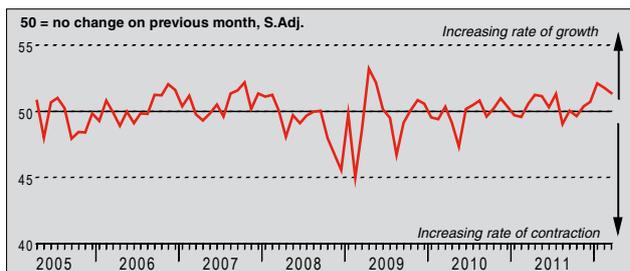
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Backlogs of work at manufacturers in India increased during March. Moreover, the rate of accumulation accelerated markedly since February to the strongest in the series history. Anecdotal evidence suggested that, where a rise in outstanding business was registered, this predominantly reflected power cuts at factories. To a lesser extent shortages of raw materials were noted.

Stocks of Finished Goods Index

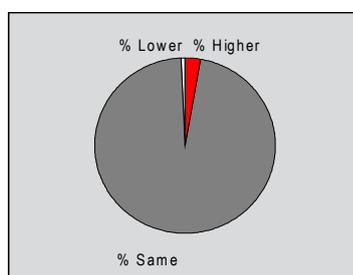
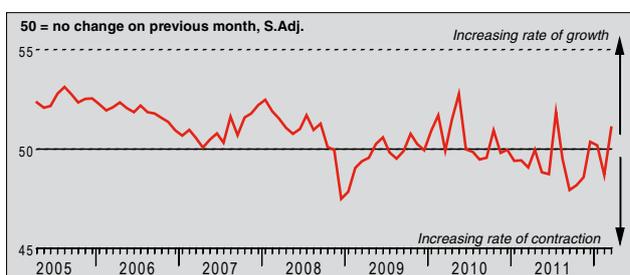
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Stocks of finished goods at manufacturers in India increased for a fifth successive month in March. Panellists noting an accumulation of post-production inventories attributed this to higher output. However, the extent to which stocks rose was modest, having slowed for a second consecutive survey period. Highlighting this, the vast majority of respondents (approximately 90%) indicated no change in inventories since February.

Employment Index

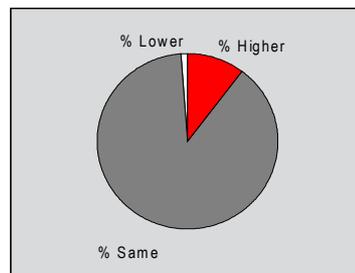
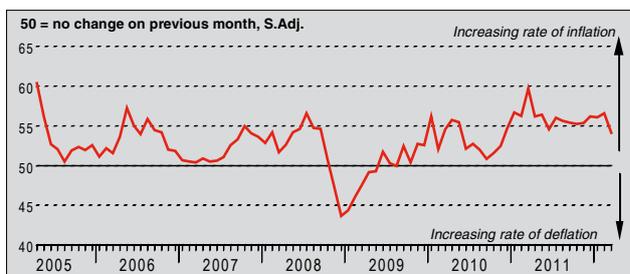
Q. Please compare the level of employment at your unit with the situation one month ago.



March data signalled a rise of employment in the Indian manufacturing sector. This was in contrast to the reduction indicated in February, with job creation now registered in three of the last four months. Panellists noting an increase in staffing levels commented that this reflected expanded production capacity requirements. However, the rise in employment was only marginal, with the vast majority of respondents (approximately 97%) recording no change in staffing levels since February.

Output Prices Index

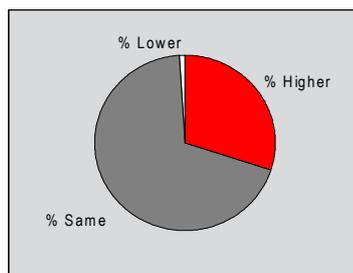
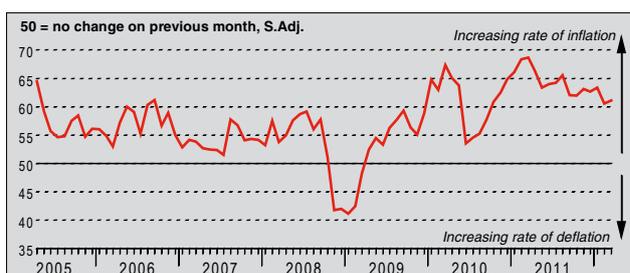
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Indian manufacturers reported an increase in their prices charged during March, extending the period of sustained output price inflation to 31 months. The rise in charges was attributed to a further increase in costs, with companies aiming to protect margins by passing on higher input prices to clients. The latest rate of charge inflation was solid and stronger than the long-run trend. However, it slowed from February's 11-month high to the slowest since November 2010.

Input Prices Index

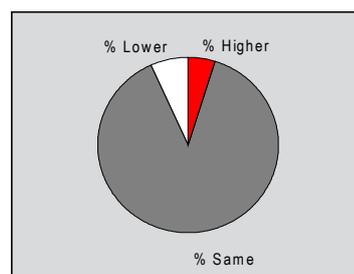
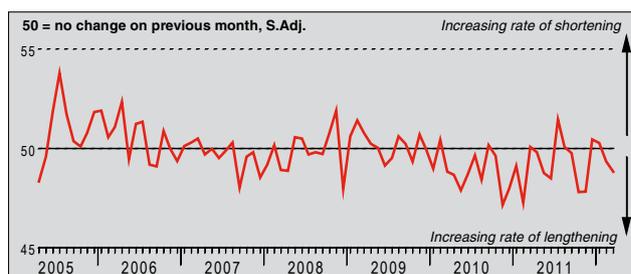
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Input prices faced by manufacturers in India increased substantially during March. Cost inflation has now been recorded in each survey period over the last three years. The latest rise was broadly in line with the average for this sequence, despite being the second-weakest in 17 months. Exactly 30% of respondents registered higher purchase costs since February, with increased raw material prices the main driver of inflation.

Suppliers' Delivery Times Index

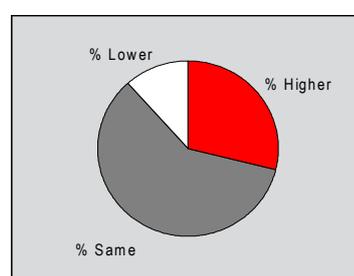
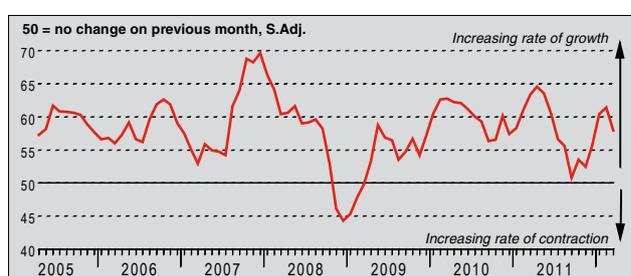
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Suppliers' delivery times were reported to have lengthened for a second month running in March. Moreover, the extent of the deterioration in vendor performance was sharper than in the previous survey period. Panellists registering longer lead times noted that this largely reflected capacity constraints at suppliers due to power cuts and shortages of materials.

Quantity of Purchases Index

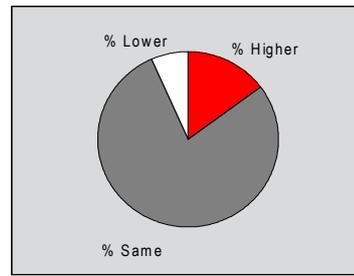
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Indian manufacturers reported a marked rise in purchasing activity during March, citing higher output requirements as the main contributor to the increase in input buying. However, in line with weaker growth of production, the rate of expansion in purchase volumes eased to a three-month low. In some cases, shortages, and the higher prices, of raw materials were also noted to have had a negative effect on input buying. Nonetheless, purchasing activity has now increased in each month over the last three years.

Stocks of Purchases Index

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



March data signalled a rise in stocks of purchases at manufacturers in India. With approximately 15% of respondents noting an increase in pre-production inventories, compared with 7% indicating a fall, the rate of accumulation was solid and slightly faster than in the previous survey period. Panellists commented that higher purchase volumes and the need to maintain stocks for output had led to the latest increase in inventories.

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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