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# HSBC India Manufacturing PMI™

New orders grow strongly, but rate of expansion in output limited by power shortages

#### Key findings:

- Output increases at weakest pace in 2012 so far
- New business growth accelerates
- Inflationary pressures strengthen

Indian manufacturers recorded another marked improvement in operating conditions in April. New orders rose at a strong, and accelerated pace, but production growth was again limited by reports of power cuts. This resulted in a seventh successive accumulation of backlogs of work. Meanwhile, inflationary pressures continued to build, with inflation of both input costs and output prices accelerating during the month.

The seasonally adjusted HSBC *Purchasing Managers' Index*<sup>TM</sup>  $(PMI^{TM})$  – a headline index designed to measure the overall health of the manufacturing sector – posted 54.9 in April, little-changed from 54.7 in March and signalling a solid improvement in operating conditions.

A combination of improved client demand and good quality products led to a further increase in new business at Indian manufacturers during April. Moreover, the rate of expansion was considerable, and faster than in March. Growth in new export orders also quickened during the month, and was marked.

Although manufacturing output increased, the rate of expansion slowed fractionally, and was the weakest in 2012 so far. Respondents indicated that higher new orders had led to the rise in output, but power cuts had prevented firms from increasing production at a faster rate.

Production issues contributed to another sharp increase in backlogs of work, with the pace of accumulation largely

unchanged from March's series record. Power shortages were also reported to have impacted negatively on supplier performance in April, although delivery times were broadly unchanged over the month.

Employment rose for the fourth time in the past five months in April. That said, the latest increase in staffing levels was only modest. Where job creation was recorded, this was mainly linked to higher workloads.

The rate of cost inflation accelerated for the second month running in April, and was the sharpest since August 2011. Respondents largely attributed inflation to increased raw material costs, while higher taxes were also mentioned. Charge inflation also picked up, and was the third-fastest in the history of the series. Again, higher raw material costs and tax increases were highlighted by respondents, as they passed these on to their clients.

Higher workloads encouraged manufacturers to increase their purchasing activity in April. However, the rate of growth in input buying slowed to the weakest in four months, with respondents noting high prices for raw materials. As purchasing activity slowed, stocks of inputs fell for the first time since February 2009. Stocks of finished goods rose slightly during April, but at the weakest pace since last December.



The HSBC India Purchasing Managers' Index<sup>TM</sup> (PMI<sup>TM</sup>) 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<sup>TM</sup> and PMI<sup>TM</sup> 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.

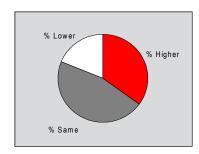




#### **Output Index**

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



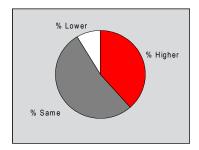


April data signalled a further expansion of manufacturing output in India, extending the current sequence of growth to 37 months. Although the pace of increase remained strong, it eased fractionally to the slowest in 2012 so far. According to respondents, higher new orders was the principal factor leading to the rise in output. However, a number of panellists indicated that power cuts had impacted negatively on operations, thereby preventing stronger production growth during the month.

#### New Orders Index

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



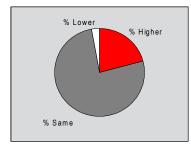


New orders at Indian manufacturing firms increased in April. The rate of expansion was strong, with more than 38% of panellists signalling a rise in new business over the month. Moreover, the rate of growth was faster than March. Where new orders increased, firms mainly highlighted improving client demand. There were also reports that good quality products had encouraged clients to commit to new projects.

# New Export Orders Index

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



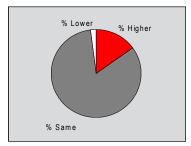


As has been the case throughout the past six months, new export orders increased in April. The latest rise was the fastest since January. However, the rate of growth in new export orders was still slower than that recorded for total new business. Where new business from abroad increased, respondents signalled that this was largely reflective of improving global demand.

# Backlogs of Work Index

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



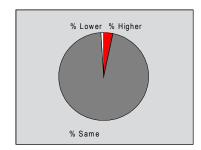


Backlogs of work were accumulated for the seventh consecutive month in April. Moreover, the pace at which outstanding business increased was substantial, and broadly in line with the series record seen in March. The principal cause of the latest rise in work-in-hand was power cuts, which restricted firms' ability to raise production to the extent required by new order growth.

## Stocks of Finished Goods Index

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



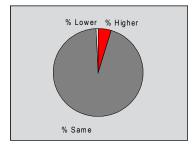


Indian manufacturing firms recorded a further increase in stocks of finished goods in April. Post-production inventories have risen continuously since November 2011. However, the rate of accumulation was only slight, having slowed for the third consecutive month. The vast majority of respondents signalled no change in post-production inventories. Those panellists that signalled stock accumulation linked this to output growth. On the other hand, power cuts had reportedly led some firms to use inventories to partly fulfil orders.

#### Employment Index

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



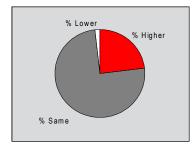


Anecdotal evidence in April suggested that higher workloads had encouraged firms to take on extra staff in an effort to improve operating capacity. Employment rose for the fourth time in the past five months, although the rate of job creation remained muted. Close to 5% of respondents noted an increase in staffing levels in April, compared with just 1% that posted a decrease.

# 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.

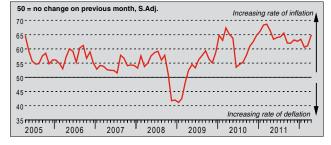


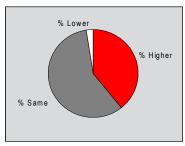


April data signalled a further rise in output prices at Indian manufacturing firms. Moreover, the rate of inflation was much faster than that seen in the previous month, and the third-fastest in the series history. Respondents noted that higher output prices mainly reflected the passing on of rising raw material costs to clients, while higher taxation was also a factor. Prices charged have 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.

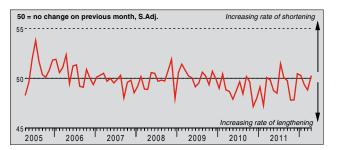


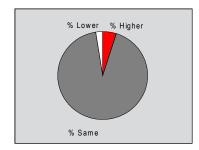


The rate of input cost inflation accelerated for the second successive month in April, and was the fastest since August 2011. The latest increase in input prices was also sharper than the series average. According to panellists, the main reason for the latest rise in costs was higher raw material prices, which in turn were linked to supply shortages. Some respondents also mentioned that tax increases had contributed to inflationary pressures.

## Suppliers' Delivery Times Index

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



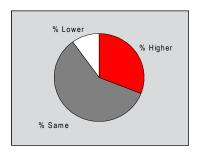


Suppliers' delivery times were broadly unchanged during April, ending a two-month sequence of deteriorating vendor performance. That said, reports from panellists suggested that lead times would have shortened had suppliers not experienced power shortages during the month. Around 93% of respondents signalled no change in delivery times during April.

# Quantity of Purchases Index

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



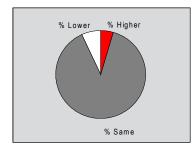


Manufacturing firms in India increased their purchasing activity at a sharp pace in April. That said, the rate of expansion slowed for the second month running to the weakest in 2012 so far. According to respondents, the latest rise in input buying was mainly in response to increased workloads. Approximately three times as many panellists recorded a rise in purchasing activity during the month as posted a fall. Where input buying did decline, this was linked to the high price of raw materials.

# Stocks of Purchases Index

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





Stocks of purchases decreased for the first time since February 2009 in April, although the rate of depletion was only slight. This represented a marked turnaround from the start of the year, when pre-production inventories rose strongly. Some respondents indicated that stocks of purchases had declined due to slower growth in purchasing activity.

## 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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