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HSBC India Manufacturing PMI™

New business continues to rise sharply at Indian manufacturers amid strong demand

Key findings:

- Further substantial increase in new business
- · Output growth remains marked
- Firms raise charges at one of the fastest rates in the series history

Marked growth was again registered in the Indian manufacturing sector during May. Both output and new orders increased sharply, although production constraints led to a further substantial build up of outstanding business. Strong demand for raw materials led to further cost inflation during the month, and panellists raised their output prices accordingly.

The seasonally adjusted HSBC *Purchasing Managers' Index*TM (PMI^{TM}) – a headline index designed to measure the overall health of the manufacturing sector – posted 54.8 in May, little-changed from the reading of 54.9 in April, and thereby signalling a further marked improvement of business conditions in the sector.

New orders at Indian manufacturers increased sharply again in May, with the rate of expansion only slightly weaker than in April. According to respondents, strong demand was a key factor behind the rise in new business, while the importance of good quality products was also mentioned. New export orders increased for the seventh consecutive month.

New order growth led firms to expand production again in May, and at a substantial pace. That said, respondents continued to suggest that power cuts had hampered operations, preventing a faster rise in output.

Power shortages, as well as insufficient employee numbers, led to a marked accumulation of backlogs of work that was only

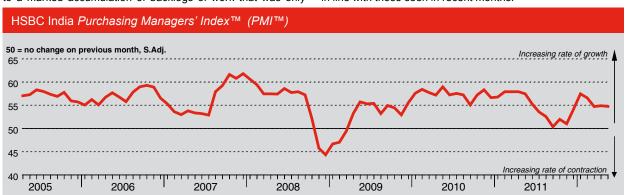
fractionally weaker than March's series record. Reflecting this, manufacturers increased employment levels in May, although the rate of job creation was again modest.

As has been the case in each month since April 2009, firms raised their input buying in May. Respondents indicated that the latest increase was reflective of higher new orders and rising production requirements. Increased input buying and power cuts impacted negatively on supplier performance, although the lengthening of delivery times was only fractional.

Strong demand for inputs, coupled with reports of limited supply, led to another rise in input costs during the month. The rate of inflation was little-changed from that seen in April.

Indian manufacturers passed on higher input costs to their clients in May. Output prices rose for the thirty-third month in a row, and at one of the fastest rates in the history of the series.

Stocks of purchases rose marginally, following a slight fall in the previous month. Where an accumulation of pre-production inventories was recorded, this was linked to increased new business. Stocks of finished goods also rose, extending the current sequence of increasing inventories to seven months. The latest accumulation of stocks of finished goods was broadly in line with those seen in recent months.



The HSBC India Purchasing Managers' IndexTM (PMITM) 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' IndexTM and PMITM 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.

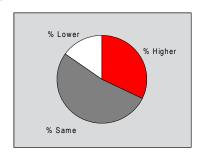




Output Index

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



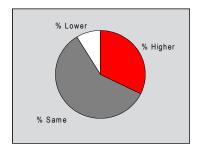


Production at Indian manufacturing firms continued to increase in May. The rate of expansion remained sharp, and was broadly in line with those seen in the preceding two months. Output has risen in each month since April 2009. According to respondents, the latest increase in production largely reflected new order growth. There were some reports that power cuts had restricted operations, although these were less widespread than in April.

New Orders Index

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

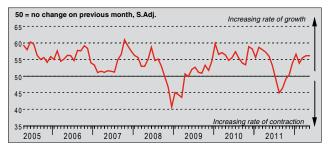


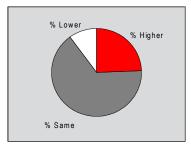


Indian manufacturers recorded a further rise in new business during May. Although the rate of expansion slowed slightly over the month, it remained sharp and broadly in line with the series average. Those respondents that recorded an increase in new orders mainly linked this to strong market demand. The importance of producing high quality products was also mentioned by firms.

New Export Orders Index

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



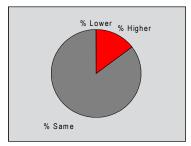


As has been the case throughout the past seven months, new export orders increased during May. The latest rise was marked, and the same as that registered in April. More than 24% of respondents signalled an expansion of new business from abroad during the month, which they linked to strong international demand.

Backlogs of Work Index

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

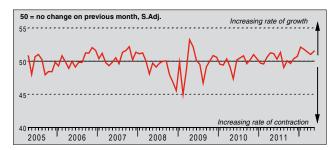


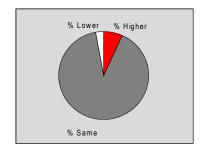


Backlogs of work continued to be accumulated at a substantial pace in May, with the latest increase broadly in line with the series record posted in March. Outstanding business has now increased in each of the past eight months. Where backlogs rose, a number of panellists reported that power shortages had made it more difficult to process a sharp rise in new orders. Some respondents also mentioned that staffing levels were below those required to clear outstanding work.

Stocks of Finished Goods Index

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

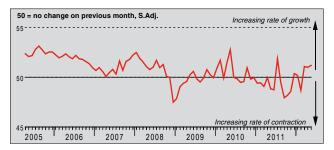


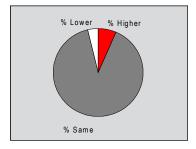


Rising new business and expectations of further growth in the coming months led Indian manufacturing firms to raise their stocks of finished goods in May. Post-production inventories increased for the seventh consecutive month, and the rate of accumulation quickened slightly to the fastest since February.

Employment Index

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



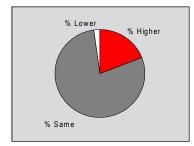


For the fifth time in the past six months, Indian manufacturers took on extra staff in May. However, the rate of job creation remained only slight and was broadly similar to those seen in March and April. Those respondents that increased employment reported attempts to improve operating capacity in line with rising production requirements.

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.



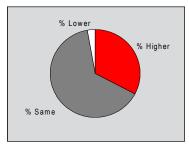


Indian manufacturers raised their output prices again in May, extending the current sequence of inflation to 33 months. Moreover, the rate of inflation remained considerable, and was one of the sharpest in the history of the series. Anecdotal evidence suggested that increased output prices mainly reflected the passing on of higher input costs. More than 19% of respondents noted a rise in charges, against just 2% that lowered them.

Input Prices Index

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

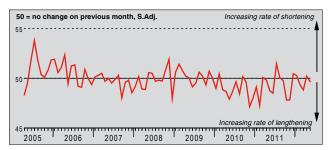


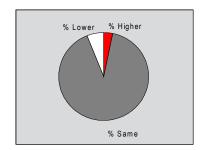


May data signalled a further sharp rise in input prices, with the rate of inflation only marginally weaker than in April. Close to one-third of respondents recorded an increase in input costs. Panellists reported higher raw material prices, which were largely due to strong demand for inputs, and in some cases a lack of supply.

Suppliers' Delivery Times Index

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



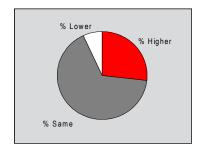


Suppliers' delivery times lengthened marginally in May, following a fractional improvement in April. Average vendor performance has now deteriorated in three of the past four months. According to panellists, the principal cause of longer lead times was power cuts, while there were some reports that strong demand for inputs had intensified capacity pressures at suppliers.

Quantity of Purchases Index

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



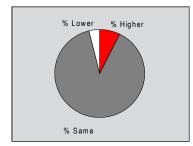


Indian manufacturers raised their purchasing activity for the thirty-eighth successive month in May. Moreover, the latest increase was sharp, and faster than in the previous month. Anecdotal evidence suggested that input buying had risen in line with higher new orders, and a subsequent increase in production requirements.

Stocks of Purchases Index

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





After falling slightly in April, stocks of purchases at Indian manufacturing firms increased marginally during May. Aside from the reduction in April, pre-production inventories have risen in each month since March 2009. Respondents indicated that they had attempted to raise stocks of purchases in line with rising new business.

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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