

HSBC India Manufacturing PMI™

June data signals continued inflationary pressures in India manufacturing sector

Key findings:

- PMI at 55.0 indicates further improvement in health of manufacturing economy
- Production expands sharply in June
- Largest month-on-month increase in input prices since August 2011

Production increased sharply in June, extending the current expansionary period to 39 months. New orders increased as domestic and international demand strengthened. With demand exceeding supply, the manufacturing sector experienced further inflationary pressure. Meanwhile, companies intentionally built up inventories in line with stronger demand and increased employment.

The seasonally adjusted HSBC *Purchasing Managers' Index™* (PMI™) – a headline index designed to measure the overall health of the manufacturing sector – posted 55.0 in June, little-changed from the reading of 54.8 in May, hence signalling a further marked improvement of business conditions in the sector.

Firms indicated that product quality improvement combined with stronger demand contributed to higher levels of new orders. As a consequence, output expanded again in June, extending the current expansionary period to three years and three months. New export orders increased moderately at manufacturing firms. Among other factors, panellists stated that dollar appreciation played a role in the increase.

Output prices increased as manufacturers attempted to pass further rises in the cost of inputs on to their clients. Moreover, firms in India reported that charges also increased in line with more expensive labour costs.

Input prices continued to increase, extending the inflationary period to 39 successive months. The rate of inflation in June was sharp and the largest since August 2011.

Manufacturers experienced a further expansion in staffing levels. Workforces increased slightly to accommodate higher levels of output.

Companies intentionally increased post-production inventories in line with stronger demand. Stocks of finished goods have now expanded throughout the past eight months.

Firms accumulated stocks of purchases intentionally according to expected increases in demand. The rate of expansion was only modest, with almost 84% of manufacturers reporting no change in pre-production inventories.

Lead times shortened moderately in the Indian manufacturing sector. Panellists stated that suppliers had been able to meet requirements for faster deliveries.

Outstanding business increased marginally in June, extending the period of accumulation to nine months. Powercuts were reported by firms as one of the main factors leading to growing levels of outstanding business.

Manufacturers increased their levels of input buying in June. Although the rate of increase was substantial, it was the lowest in the year so far.

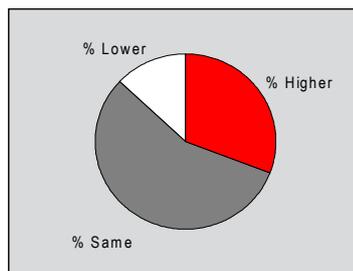
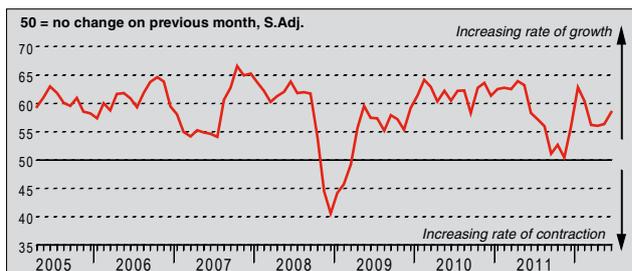
HSBC India Purchasing Managers' Index™ (PMI™)



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

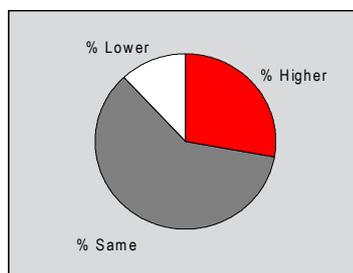
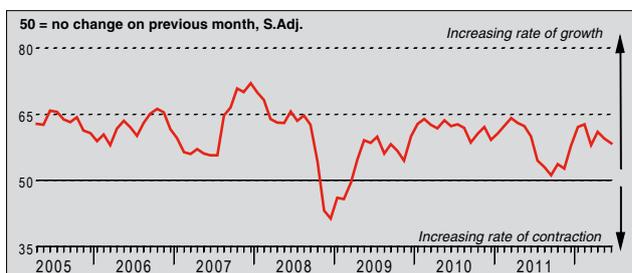
Q. Please compare your production/output this month with the situation one month ago.



Output continued to expand in the Indian manufacturing sector during June. The seasonally adjusted Output Index signalled that the current expansionary period was extended to three years and three months. The rate of growth in output was sharp. Panellists attributed higher output to stronger demand both nationally and internationally. More than 30% of firms reported higher output in June, while exactly 13% indicated that production had fallen.

New Orders Index

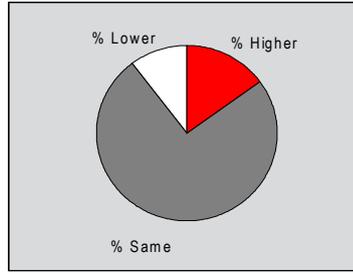
Q. Please compare the level of new orders received (India and export) this month with the situation one month ago.



Order book volumes increased sharply in June, extending the expansionary period to 39 months. However, the seasonally adjusted New Orders Index was below its long-run average. Respondents attributed higher orders to stronger demand, both domestically and internationally. Additionally, it was stated that product quality improved, leading to higher sales volumes.

New Export Orders Index

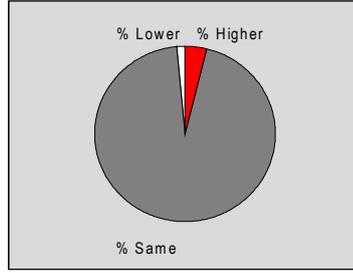
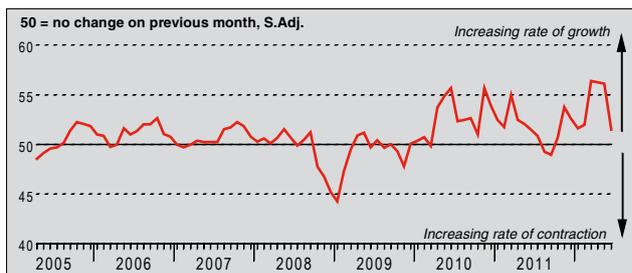
Q. Please compare the level of new export orders received this month with the situation of one month ago.



Indian manufacturers experienced further growth in new export orders in June. However, the rate of increase was only marginal and the slowest in seven months. Companies stated that higher demand combined with the appreciation of the dollar, contributed to increasing orders. New export business has risen continuously since November 2011.

Backlogs of Work Index

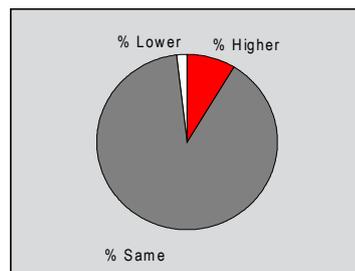
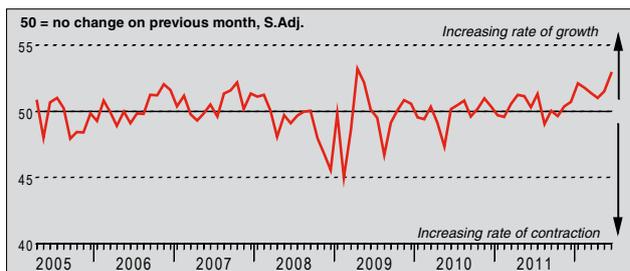
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Indian manufacturing outstanding orders continued to increase in June, extending the current period of accumulation to nine months. Panellists indicated that high demand and powercuts were among the factors behind growing levels of outstanding business. That said, the rate of increase slowed markedly over the month, as almost 95% of firms reported no change in backlogs.

Stocks of Finished Goods Index

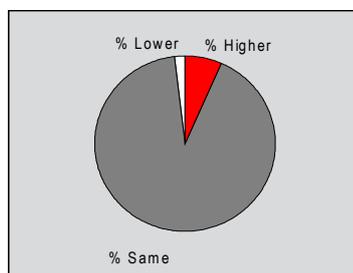
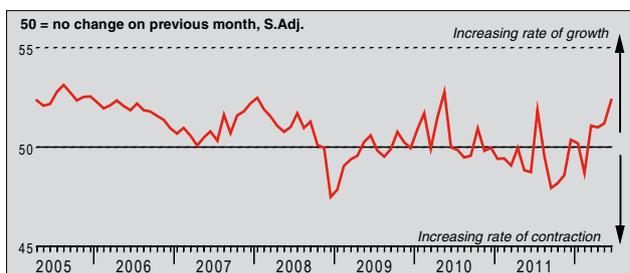
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Post-production inventories at manufacturers in India increased in June, extending the period of expansion to eight successive months. The seasonally adjusted Stocks of Finished Goods Index was the highest since April 2009. Approximately 9% of firms reported higher stock levels, with the vast majority (89.4%) indicating that inventories had not changed. Anecdotal evidence suggested that stronger demand led manufacturers to intentionally invest in inventories.

Employment Index

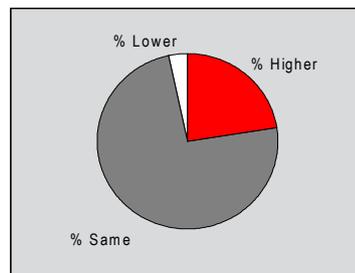
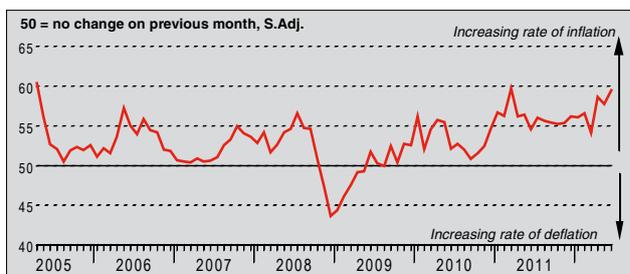
Q. Please compare the level of employment at your unit with the situation one month ago.



Workforces increased at Indian manufacturing companies amid reports of higher production levels and indications that current staffing levels were insufficient to meet demand requirements. The seasonally adjusted Employment Index was the highest since June 2010, although around 92% of firms reported no change in payroll numbers.

Output Prices Index

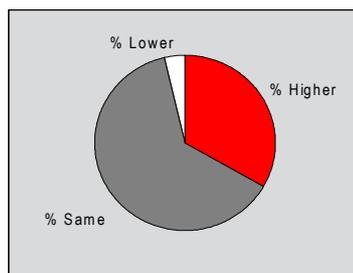
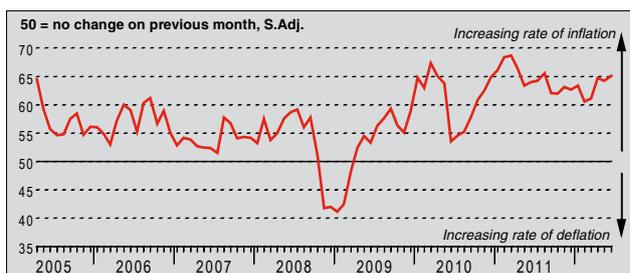
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Charges increased sharply in June, extending the inflationary period to 34 months. The seasonally adjusted Output Prices Index signalled the fastest rise in charges since March 2011. Panellists reportedly increased output prices in line with rising input costs. Moreover, firms signalled that as demand exceeded supply and labour costs increased, manufacturers raised charges.

Input Prices Index

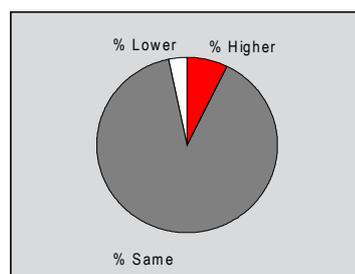
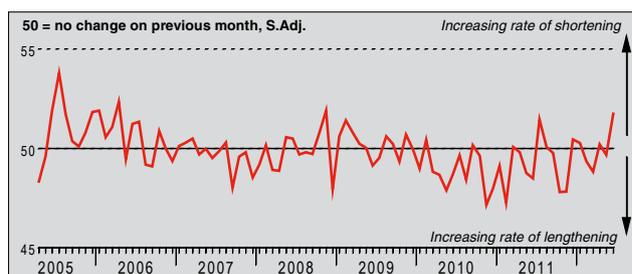
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



June data signalled persistent inflationary pressure in the manufacturing sector. The seasonally adjusted Input Prices Index pointed to the sharpest rise in costs for ten months, and was substantially higher than the long-run average for the series. Among other factors, dollar appreciation, and higher metal and fuel prices were the main contributors to increasing input prices. Additionally, strong demand was also reported by firms to have added to inflationary pressures.

Suppliers' Delivery Times Index

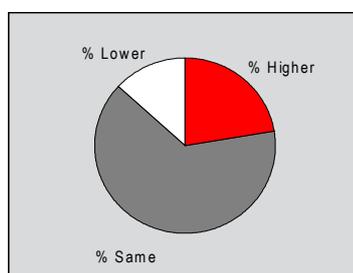
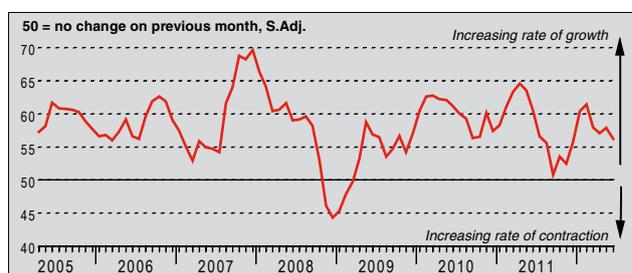
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Lead times shortened in the Indian manufacturing sector for the second time in the past three months in June. Moreover the improvement in vendor performance was the strongest since November 2008. According to respondents, suppliers had been able to meet requirements for faster deliveries.

Quantity of Purchases Index

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



Purchasing activity increased substantially in June, although the seasonally adjusted Quantity of Purchases Index was the lowest in the year-to-date signalling a weaker rise in purchasing. Approximately 22% of firms stated that input buying increased compared with 13% reporting a decrease. According to manufacturers, purchases increased in line with higher production levels.

Stocks of Purchases Index

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



Indian stocks of purchases expanded modestly in June. The seasonally adjusted Stocks of Purchases Index was below its long-run average, but was slightly higher than in May. Respondents associated the accumulation of inventories with increasing new orders. Around 10% of firms stated that inventories increased in June but almost 84% of manufacturers reported no change in inventory levels.

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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