

HSBC India Manufacturing PMI™

Production increases at the weakest rate since last November

Key findings:

- PMI signals slowest improvement in the health of the manufacturing sector for eight months
- First sub-50 reading in new export orders in nine months
- Output price inflation eases

Output expanded at the slowest pace since November 2011 as new export orders fell and shortages of power hampered production. With a slight increase in workforces and slower order book growth, backlogs of work fell moderately. Meanwhile, output and input price inflation slowed during July. Stocks of purchases and post-production inventories were little changed.

The seasonally adjusted HSBC *Purchasing Managers' Index™ (PMI™)* – a headline index designed to measure the overall health of the manufacturing sector – posted 52.9 in July, down from the reading of 55.0 recorded in June and pointing to a slowdown in growth of the manufacturing sector.

Manufacturing companies in India signalled an increase in output during July amid reports of growing new orders. That said, the pace of expansion was the slowest in the past eight months.

New orders continued to rise but at the weakest rate since last November as new export orders fell for the first time since October 2011. Anecdotal evidence suggested that the global economic slowdown affected export markets, leading to weaker demand. Moreover, dollar appreciation was mentioned as a driver behind falling export business.

Job creation was recorded at manufacturing firms in India during July. The rate of increase was only modest, and eased since June. Panellists reportedly recruited more labour in line with

higher production. Meanwhile, the volume of work-in-hand (but not yet completed) fell moderately. This was the first contraction in backlogs of work recorded since September 2011.

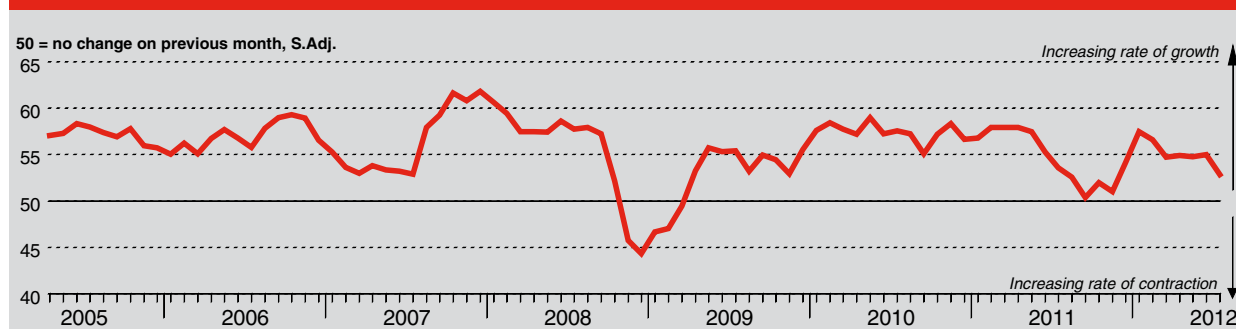
Manufacturing firms in India signalled rising charges during July. Output price inflation has persisted in the sector for 35 successive months. However, the rate of increase during July slowed from the reading in the previous month. Input costs also rose and, in line with charges, at a slower pace than June. Respondents stated that factory gate prices were increased to reflect rising fuel, labour and raw material costs. Additionally, dollar appreciation was mentioned as a factor leading to rising charges.

Post-production inventories were accumulated in July, but at a slight pace. Panellists reportedly accumulated stocks of finished goods as demand was weaker-than-anticipated. Meanwhile, pre-production inventories were broadly unchanged.

Quantity of purchases in the Indian manufacturing sector increased moderately, with the pace of increase being the slowest since September 2011. Manufacturers stated that input buying rose in line with increasing new orders.

Average lead times were little moved from June with the majority (96%) of manufacturers reporting that vendor performance was unchanged. Moreover, the index posted below its long-run average.

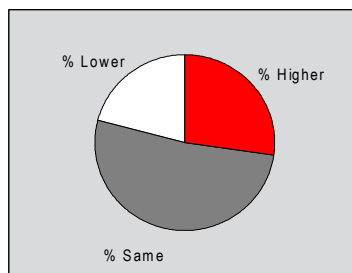
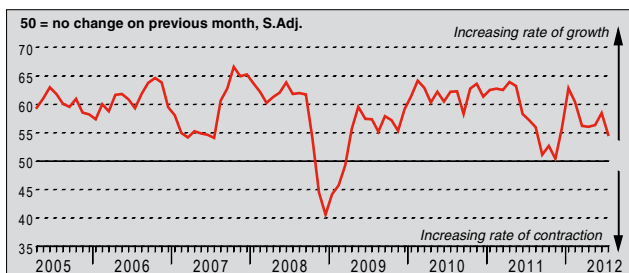
HSBC India *Purchasing Managers' Index™ (PMI™)*



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

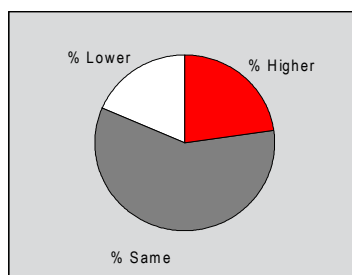
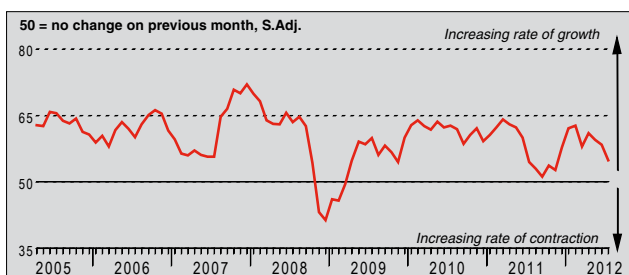
Q. Please compare your production/output this month with the situation one month ago.



Production at manufacturing firms in India increased during July. Despite rising for the fortieth month, the seasonally adjusted Output Index registered the slowest increase in output since November 2011 and was below its long-run average. Anecdotal evidence suggested that production rose at a slower pace as power shortages continued to occur.

New Orders Index

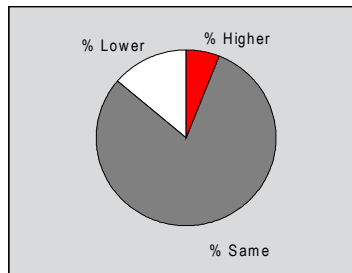
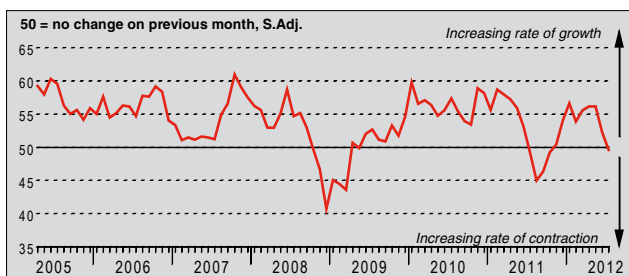
Q. Please compare the level of new orders received (India and export) this month with the situation one month ago.



New total business in the Indian manufacturing sector rose in July, extending the current sequence of growth to 40 successive months. Although marked, the pace of expansion was the slowest since November 2011. According to panellists, stronger demand led to increasing order book volumes.

New Export Orders Index

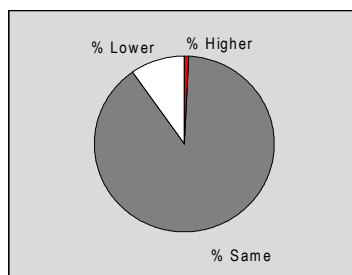
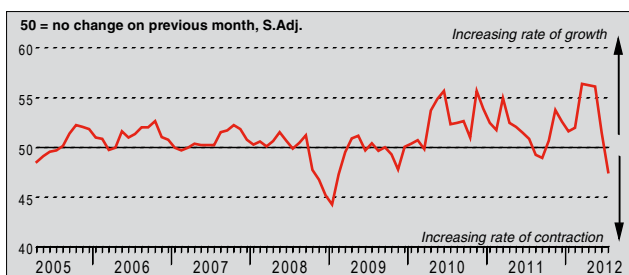
Q. Please compare the level of new export orders received this month with the situation of one month ago.



Manufacturers in India signalled a slight contraction in new export orders during July. New export business fell for the first time in nine months. Respondents stated that unfavourable exchange rates negatively affected new export sales. Moreover, manufacturers signalled that a slowdown in the global economy resulted in lower levels of exports.

Backlogs of Work Index

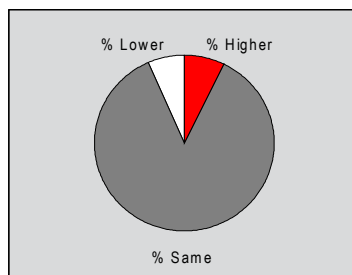
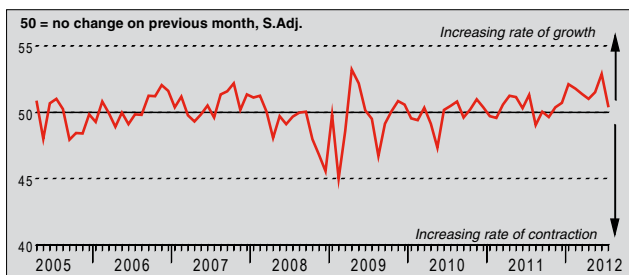
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Backlogs of work fell moderately in the Indian manufacturing sector during July. The seasonally adjusted Backlogs of Work Index posted below its long-run average and recorded the first contraction in ten months. Whereas almost 10% of companies stated that the volume of work-in-hand (but not yet completed) fell, the vast majority (89.4%) indicated no change.

Stocks of Finished Goods Index

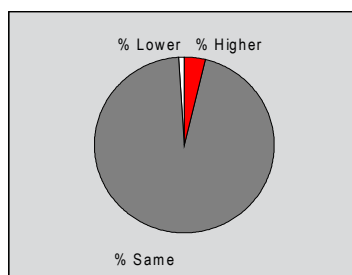
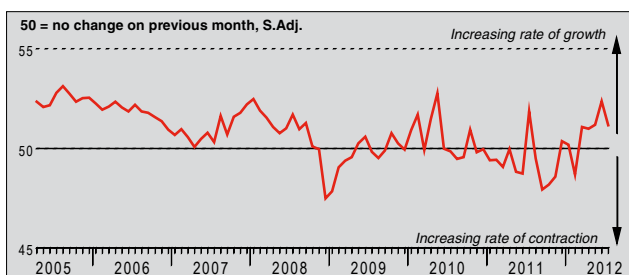
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Manufacturers in India accumulated stocks of finished goods in July. That said, the rate of increase was the slowest in the past eight months and the Stocks of Finished Goods Index posted below its long-run trend. Manufacturers reportedly built up post-production inventories as demand was weaker than anticipated.

Employment Index

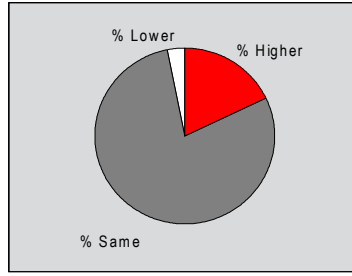
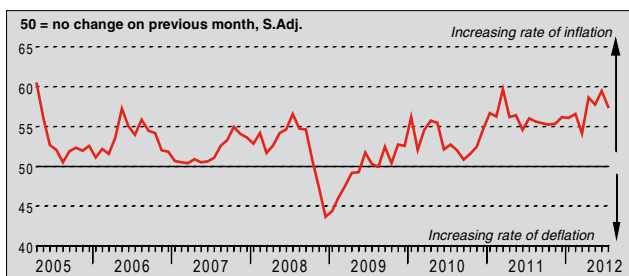
Q. Please compare the level of employment at your unit with the situation one month ago.



Workforce levels increased slightly at Indian manufacturing companies in July. Job creation has been recorded in each of the past five months, although the pace of expansion eased from that seen in June. Almost 4% of panellists reported higher employment but 95% signalled no change.

Output Prices Index

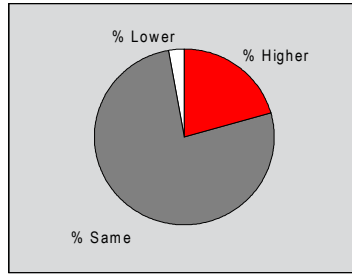
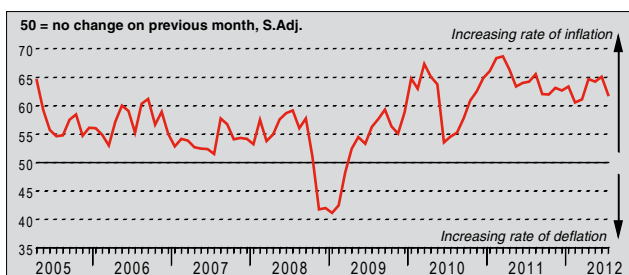
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Indian manufacturing firms reported a further increase in output prices during July. Output price inflation has persisted in the manufacturing sector for 35 consecutive months. According to panellists, charges were raised due to higher fuel, labour and raw materials costs. Moreover, dollar appreciation was also cited as a driver behind increasing factory gate prices.

Input Prices Index

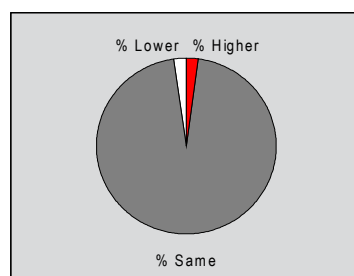
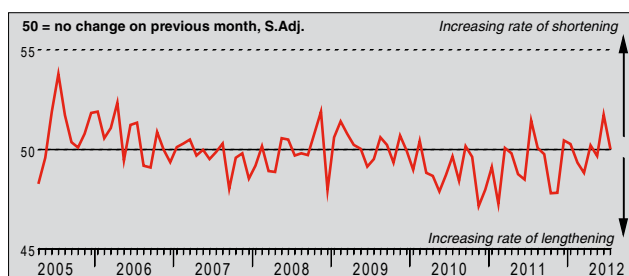
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Input costs rose in the Indian manufacturing sector in July. Purchase cost inflation has been recorded for over three years, although the pace of increase in July eased markedly from that seen in June. Approximately 21% of respondents signalled higher input prices in contrast to 3% indicating decreases. Respondents linked rising input costs to general inflation and short supply of raw materials.

Suppliers' Delivery Times Index

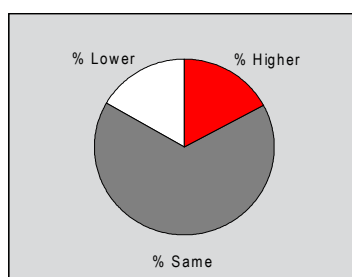
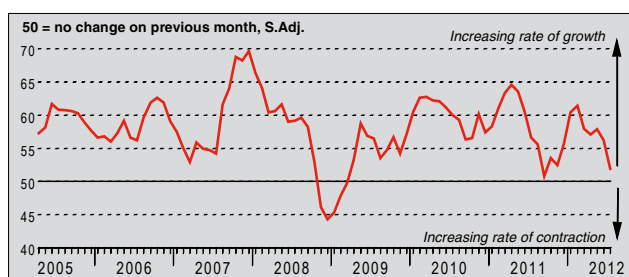
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Month-on-month, average lead times at manufacturers in India were broadly unchanged during July. The seasonally adjusted Suppliers' Delivery Times Index posted just above the no-change benchmark of 50.0 and was slightly higher than its long-run trend. Approximately 2% of firms stated that vendor performance was faster but 96% reported no change.

Quantity of Purchases Index

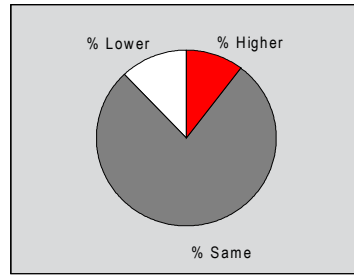
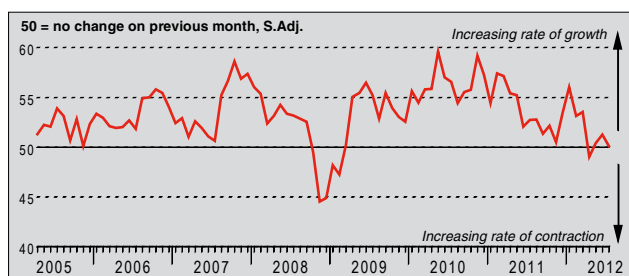
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Purchasing activity in the Indian manufacturing sector increased in July. The pace of expansion was modest and the slowest in the past ten months, as signalled by the Quantity of Purchases Index adjusted for seasonal factors. Respondents linked the increase in input buying to growing new orders.

Stocks of Purchases Index

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



Pre-production inventories at manufacturing firms in India were broadly unchanged from June. The seasonally adjusted Stocks of Purchases Index posted just above the no-change mark and was below its long-run average. Approximately 12% of companies signalled lower stocks of purchases in contrast to 10% indicating an accumulation.

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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