

HSBC India Manufacturing PMI™

Output expands at slowest pace in nine months

Key findings:

- Slowest expansion in new orders since November 2011
- Second successive decline in new export orders
- Employment increases at series record

Manufacturing companies in India recorded a further increase in output during August. Whereas new orders increased in the latest month, new export orders contracted slightly. With new total business expanding at a faster pace than output, backlogs of work were accumulated. Meanwhile, pre- and post-production inventories increased. Additionally, input and output inflation persisted in the latest month. Employment increased at the fastest pace since the survey began in April 2005.

The seasonally adjusted HSBC *Purchasing Managers' Index*™ (PMI™) – a headline index designed to measure the overall health of the manufacturing sector – posted 52.8 in August, broadly unchanged from the reading of 52.9 recorded in July. Although the health of the manufacturing sector continued to improve, the pace of expansion was the slowest in the year-to-date.

Output in the Indian manufacturing sector increased in August. However, there were some mentions that powercuts continued to hamper production. With exports slightly down, production subsequently expanded at the slowest pace in nine months. New export orders fell for the second successive month, amid reports of weaker international demand and unfavourable exchange rate conditions. However, the rate of contraction was only slight. Meanwhile, the current period of expansion in order book volumes was extended to a 41-month sequence. That said, the latest data signalled the slowest rate of growth since

last November.

Post-production inventories at manufacturers in India were accumulated at a slight pace. According to panellists, stocks of finished goods increased due to weaker-than-anticipated demand. Pre-production inventories also increased, and the current sequence of accumulation in stocks of purchases was extended to four months.

Input price inflation persisted in the Indian manufacturing sector during August. The rate of increase was steep, but the slowest in six months. Respondents signalled that input costs rose in line with general market inflation and increasing raw material prices. Charges also increased, as manufacturers reportedly passed on the latest rise in raw material prices to their clients.

Payroll numbers at manufacturing companies in India increased for the sixth successive month amid reports of business growth. Workforces expanded sharply, and at the fastest pace since data collection started in April 2005. Furthermore, backlog accumulation was recorded as power shortages persisted. That said, the pace of growth was only slight. Powercuts also affected vendor performance, it was reported. Average lead times lengthened at a slight pace during the reporting month.

Finally, purchasing activity increased for the forty-first successive month. Anecdotal evidence suggested that quantity of purchases expanded in line with higher productivity.

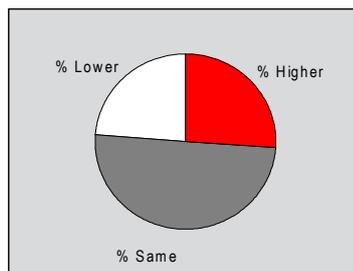
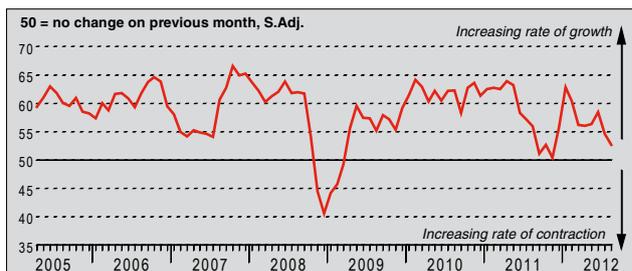
HSBC India *Purchasing Managers' Index*™ (PMI™)



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

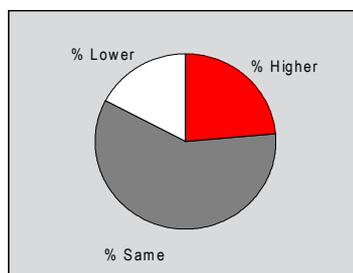
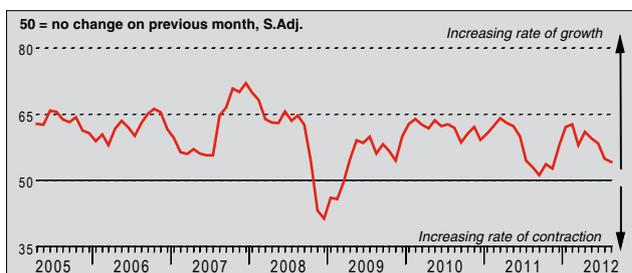
Q. Please compare your production/output this month with the situation one month ago.



Output at manufacturing companies in India increased during August. However, the pace of expansion was moderate and the slowest since November 2011. Production in this sector has increased for 41 successive months, but the Output Index adjusted for seasonal factors posted below its long-run trend in the latest month. Anecdotal evidence suggested that output increased in line with rises in new orders, but there were also reports that powercuts had contributed to slower growth.

New Orders Index

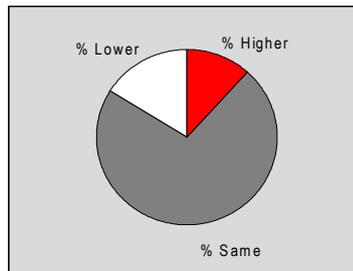
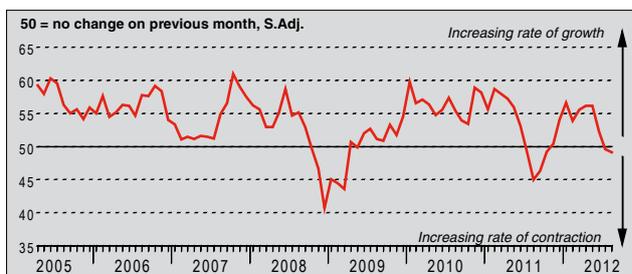
Q. Please compare the level of new orders received (India and export) this month with the situation one month ago.



New orders in the Indian manufacturing sector increased in August amid reports of stronger demand. The pace of growth was solid but the slowest since last November. Moreover, order book volumes have expanded in each of the past 41 months. Almost 24% of the surveyed panel reported higher new total business, while 17% signalled lower new orders.

New Export Orders Index

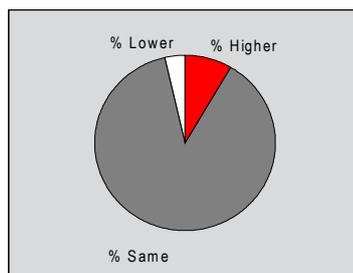
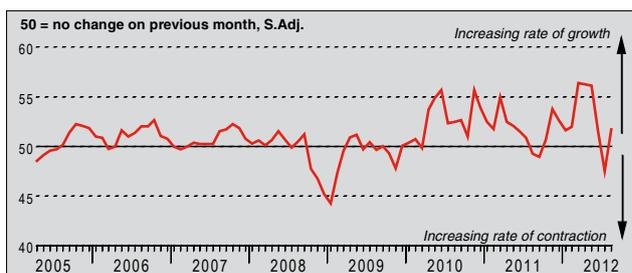
Q. Please compare the level of new export orders received this month with the situation of one month ago.



Manufacturing companies in India signalled the second successive fall in new export orders during August. Although slight, the latest contraction was the fastest since October 2011. According to panellists, unfavourable exchange rate conditions and weaker international demand both contributed to the latest drop in new export business.

Backlogs of Work Index

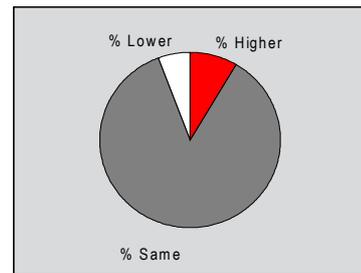
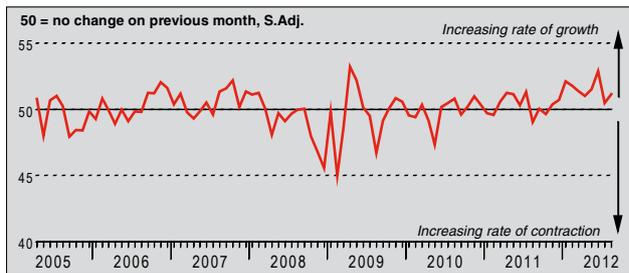
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Backlogs of work at manufacturing companies in India increased during August. That said, the rate of expansion was only slight and the seasonally adjusted Backlogs of Work Index in the latest month was broadly in line with its long-run average. Respondents stated that the volume of work-in-hand (but not yet completed) increased as power shortages continued to occur.

Stocks of Finished Goods Index

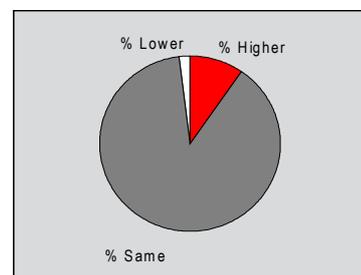
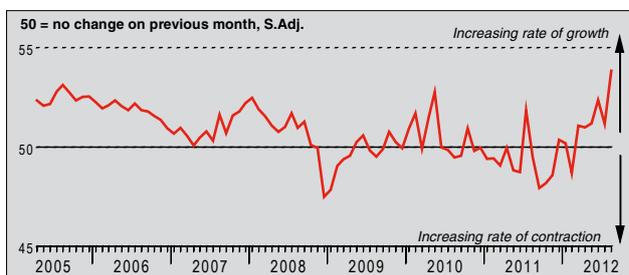
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Stocks of finished goods in the Indian manufacturing sector increased during August for the tenth consecutive month. The pace of expansion was only slight but accelerated from that recorded in July. According to respondents, post-production inventories were accumulated as demand was weaker-than-anticipated.

Employment Index

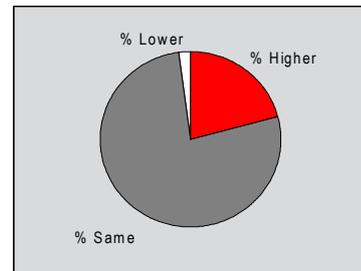
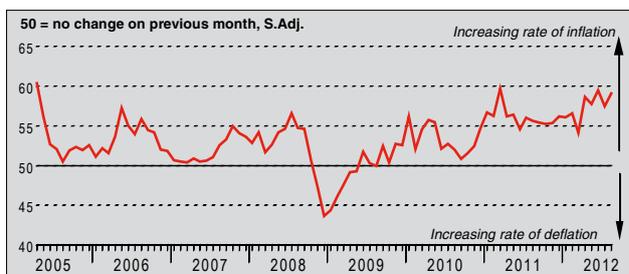
Q. Please compare the level of employment at your unit with the situation one month ago.



Job creation was recorded at manufacturing firms in India during August. The rate of expansion was steep and the fastest in over seven years of data collection. Whereas almost 10% of the surveyed panel reported higher employment, 2% stated that staffing levels were lower. Payroll numbers have increased in each of the past 6 months.

Output Prices Index

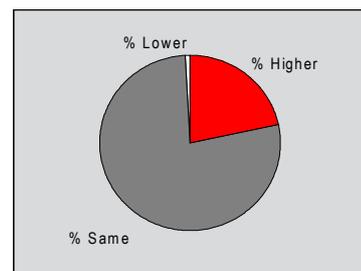
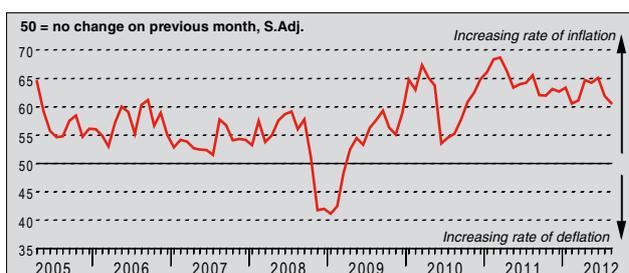
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Output prices in the Indian manufacturing sector rose in August, amid reports of increasing raw material prices. Moreover, manufacturers stated that higher import charges and taxes led to the latest increase in factory gate prices. The rate of inflation was steep and faster than in July. Output inflation in the goods-producing sector has persisted for three years.

Input Prices Index

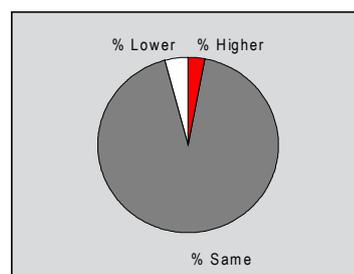
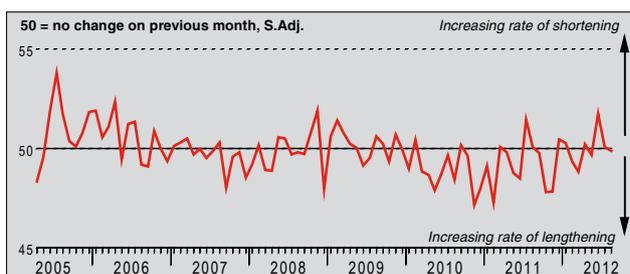
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Manufacturing firms in India signalled a rise in input prices during August, marking a 41-month sequence of input cost inflation. The rate of increase was sharp but the slowest since February. Data implied that input prices rose in line with increasing raw material costs and general inflation.

Suppliers' Delivery Times Index

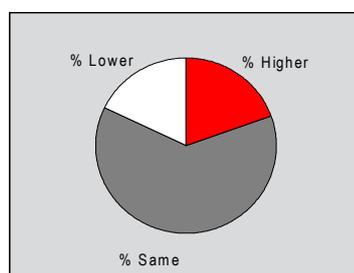
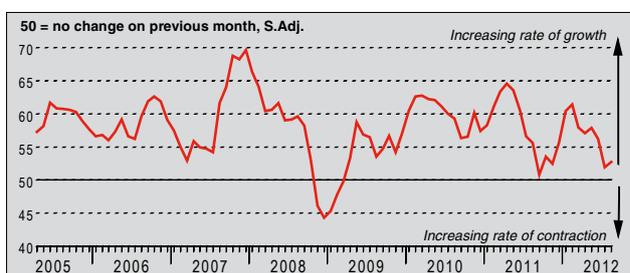
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Average lead times at manufacturing firms in India lengthened in August, ending a two-month period of improvement in vendor performance. That said, the rate of deterioration was only slight, remaining close to the no-change mark of 50.0. Manufacturers attributed the latest lengthening in suppliers' delivery times to persistent powercuts.

Quantity of Purchases Index

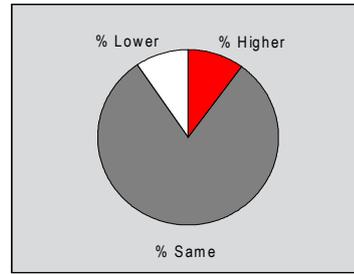
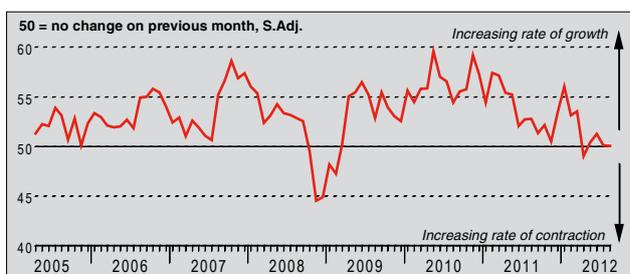
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Manufacturing companies in India recorded an increase in purchasing activity during August. The pace of growth was solid and accelerated from that seen in July. Moreover, quantity of purchases have expanded for 41 consecutive months. Higher productivity led to the expansion in input buying, according to panellists.

Stocks of Purchases Index

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



Pre-production inventories in the Indian manufacturing sector were accumulated in August, extending the current sequence of growth to four successive months. With the vast majority (80.4%) of respondents signalling no change from July, the pace of expansion was only slight. Moreover, the seasonally adjusted Stocks of Purchases Index posted below its long-run average.

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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