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HSBC India Manufacturing PMI™

Output rises at stronger rate in September

Key findings:

- New orders increase for forty-second successive month
- First expansion in new export orders in three months
- Post-production inventories expand at similar pace to June's 38-month high

Output growth was signalled in the Indian manufacturing sector as new orders and new export orders both increased. In line with rising purchasing activity, pre-production inventories were accumulated. Stocks of finished goods also rose as companies anticipated stronger demand for the coming months. Input and output price inflation persisted. Meanwhile, job creation was recorded and backlogs of work were accumulated for the second successive month.

The seasonally adjusted HSBC *Purchasing Managers' Index*TM (PMI^{TM}) – a composite indicator designed to give a single-figure snapshot of operating conditions in the manufacturing economy – posted 52.8 in September, unchanged from August's reading, and pointing to a further improvement in the health of the manufacturing sector.

Output expanded solidly and at a faster rate than August. Panel members linked the latest increase to stronger demand. Order book volumes increased for the forty-second successive month amid reports of stronger demand, good product quality and increasing marketing. New export orders increased for the first time since June. The pace of growth was solid. Anecdotal evidence indicated good product quality and stronger demand from international markets had supported the rise in foreign orders.

Manufacturing companies in India signalled an increase in purchasing activity during September. Despite posting a three-month high, the rate of growth was below its long-run trend.

Almost one quarter of monitored companies signalled an increase in input buying and stated that it was intended to meet current and expected demand. Consequently, pre-production inventories were accumulated. Although moderate, the rate of expansion was the quickest in six months.

Stocks of finished goods increased, marking an 11-month sequence of accumulation. The rate of expansion was solid and broadly in line with June's 38-month high. According to manufacturing firms, post-production inventories were intentionally accumulated as demand is forecast to strengthen.

Input prices rose again, as has been the case since April 2009. The rate of inflation was steep and the fastest in three months. Increasing raw material and diesel prices were cited by panellists as factors behind purchase cost inflation. Additionally, there were mentions of short supplies of inputs. Manufacturers reportedly passed on to their clients the burden of rising costs as charges increased. Although marked, the pace of inflation was the slowest in six months.

Job creation was recorded in September, the seventh successive month of growth recorded. Panellists commented that payroll numbers were increased to meet stronger demand, with some signalling expansions in marketing departments. Meanwhile, power shortages continued to affect backlogs of work, which rose at a solid pace during the month.



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.

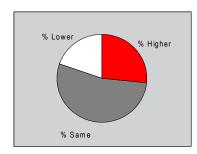




Output Index

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



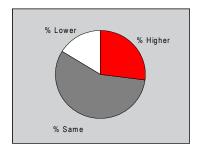


Output at manufacturing companies in India increased during September, marking a 42-month sequence of rising production. Moreover, the rate of expansion was solid and quickened from that seen in August. According to monitored companies, output increased in line with stronger demand. Around 27% of manufacturers signalled a rise in production during September.

New Orders Index

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



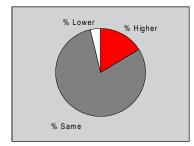


Manufacturers in India recorded a further increase in order book volumes during September, amid reports of stronger demand. Furthermore, panellists stated that good marketing strategy and product quality resulted in higher new work intakes. The rate of expansion was solid and in line with August data. That said, the New Orders Index adjusted for seasonal variations posted below its long-run average.

New Export Orders Index

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





New export orders in the Indian goods-producing sector increased in September for the first time since June. The pace of expansion was solid and accelerated to the fastest since May. Anecdotal evidence suggested that new export business rose in line with stronger international demand and good product quality. Just over 16% of panellists signalled growth.

Backlogs of Work Index

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



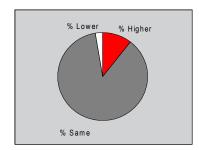


Backlogs of work in the Indian manufacturing sector increased during September. The rate of accumulation was solid and the fastest in four months. Almost 10% of the monitored companies reported higher volumes of work-in-hand (but not yet completed), and many linked the increase to persistent power shortages impacting negatively on production.

Stocks of Finished Goods Index

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

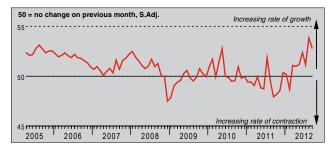


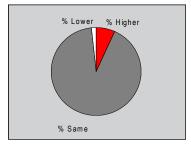


Stocks of finished goods in the Indian manufacturing sector increased in September, amid reports of anticipated stronger demand. The rate of accumulation was solid and broadly in line with June's 38-month high. Moreover, the seasonally adjusted Stocks of Finished Goods Index posted above the series average.

Employment Index

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



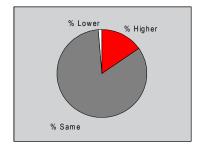


Workforces at manufacturing companies in India expanded solidly during September. Although the rate of expansion was slower than in August, the Employment Index adjusted for seasonal variations posted above the series average. Respondents intentionally increased their payroll numbers to meet production requirements. Furthermore, there were mentions that business expansion and marketing requirements led to job creation.

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.

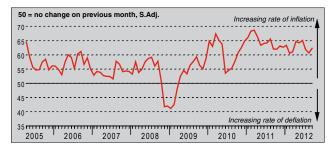


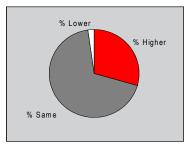


Output prices in the Indian goods-producing sector increased in September for the thirty-seventh consecutive month. The pace of inflation was sharp but the slowest in six months. According to survey participants, charges were raised in line with higher raw material costs, including chemicals, tobacco and machinery spare parts. There were also mentions of higher import charges and unfavourable exchange rate conditions.

Input Prices Index

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



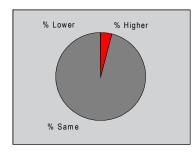


Manufacturing companies in India signalled a further increase in input costs during September, marking a 42-month sequence of cost inflation. Anecdotal evidence suggested that input price inflation persisted as raw material and diesel prices increased. Moreover, companies indicated that a short supply of inputs led to rising purchase costs. Input prices increased at a steep pace in September, the quickest in three months.

Suppliers' Delivery Times Index

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



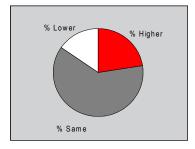


Average lead times in the Indian manufacturing sector shortened in September. With approximately 4% of monitored companies signalling faster lead times but 96% reporting no change, the rate of improvement was only slight. Still, the seasonally adjusted Suppliers' Delivery Times Index posted above its long-run trend in the latest month.

Quantity of Purchases Index

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

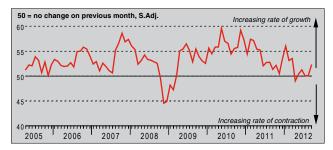


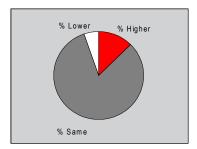


Manufacturing companies in India signalled an increase in purchasing activity during September. The rate of expansion was solid and the quickest in three months. Almost one quarter of the survey panel indicated higher input buying, in contrast to 15% signalling lower purchasing activity. Anecdotal evidence suggested that purchasing activity was expanded in line with stronger demand and output growth.

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 increased in September, extending the current period of accumulation to a five-month sequence. The rate of expansion was moderate, though, the fastest since March. According to respondents, stocks of purchases were accumulated in line with higher input buying intended to meet future demand.

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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