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# HSBC India Manufacturing PMI™

Output increases in October but power shortages restrict growth

## Key findings:

- New orders increase for the forty-third consecutive month
- · Second successive monthly expansion in new export orders
- Output prices increase at slowest rate in 23 months

In line with increasing new orders, output expanded at manufacturing companies in India during October. New export orders also rose. Continuing the trend that started in April 2009, input prices increased. Consequently, output price inflation persisted, albeit at the slowest pace since November 2010. Meanwhile, post-production inventories were depleted, as companies met orders directly from stock.

The seasonally adjusted HSBC *Purchasing Managers' Index*<sup>TM</sup> ( $PMI^{TM}$ ) – a composite indicator designed to give a single-figure snapshot of operating conditions in the manufacturing economy – posted 52.9 in October, broadly unchanged from the reading of 52.8 in September, and signalling a further improvement in the health of the manufacturing sector.

Output in the Indian manufacturing sector expanded moderately in October, but persistent power shortages weighed on production. New orders increased, as has been the case since April 2009. The pace of expansion was marked and accelerated from September. According to respondents, order book volumes rose in tandem with stronger demand, increased marketing and maintained product quality. New export orders increased for the second successive month. The rate of expansion was solid and broadly in line with September's four-month high. Anecdotal evidence suggested that new export business growth was led by stronger international demand, the launch of new products and favourable exchange rate conditions.

Input price inflation in the Indian goods-producing sector persisted in October. Although sharp, the pace of increase was the slowest in 25 months. Part of the burden of input cost inflation was passed on to clients as output prices were increased again. That said, the rate of inflation was the slowest since November 2010.

Manufacturing firms signalled higher purchasing activity in October, amid reports of greater production. The pace of expansion was solid and the fastest since June. Meanwhile, staffing levels increased, marking an eight-month sequence of job creation. According to respondents, payroll numbers were raised to support new orders growth.

Pre-production inventories at manufacturing companies in India increased. The rate of accumulation was moderate, although the fastest in the current six-month sequence of expansion. Approximately 14% of respondents reported higher input inventories, citing greater production requirements. In contrast, stocks of finished goods were depleted. Anecdotal evidence suggested that powercuts impacted negatively on output and post-production inventories were subsequently used to meet demand requirements.

Backlogs of work in the Indian manufacturing sector were accumulated at a sharp rate during October. Persistent power shortages were mentioned by respondents as a factor leading to backlog accumulation.



The HSBC India Purchasing Managers' Index<sup>TM</sup> (PMI<sup>TM</sup>) 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<sup>TM</sup> and PMI<sup>TM</sup> 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.

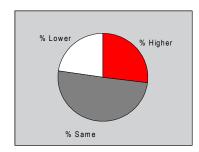




## **Output Index**

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



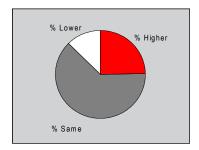


Output at manufacturing companies in India increased during October, amid reports of stronger demand and maintained product quality. That said, persistent power shortages contributed to slower growth. The pace of expansion was moderate, and slower than that recorded in September. Moreover, the seasonally adjusted Output Index posted below the long-run series average.

#### New Orders Index

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



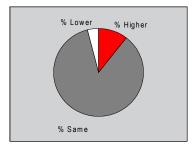


Manufacturing companies in India signalled a further increase in order book volumes during October, the forty-third successive month of growth recorded. The pace of expansion was substantial and slightly faster than in September. Anecdotal evidence suggested that new orders rose in line with increased marketing, good product quality and higher demand.

# New Export Orders Index

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



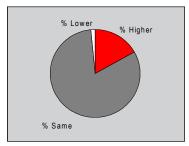


Companies in the Indian goods-producing sector signalled higher new export orders in October. The rate of growth was solid and broadly unchanged from September's four-month high. According to panel members, demand from international markets strengthened. Moreover, there were reports that favourable exchange rate movements and the launch of new products led to the latest increase in new export orders.

# Backlogs of Work Index

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



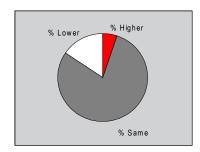


Backlogs of work in the Indian manufacturing sector increased in October for the third successive month. The rate of accumulation was sharp and the fastest in six months. Almost 17% of the survey panel reported higher volumes of work-in-hand (but not yet completed), citing persistent power shortages.

## Stocks of Finished Goods Index

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



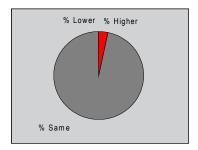


Manufacturing companies in Indian signalled decreased stocks of finished goods in October, the first registered in a year. With almost 16% of panellists signalling lower stocks of finished goods but 80% noting no change, the pace of depletion was only slight. Amongst other factors, respondents stated that powercuts affected production and inventories were used to support higher sales volumes.

#### Employment Index

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

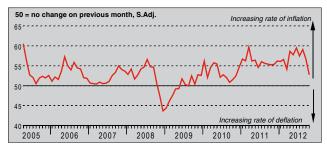


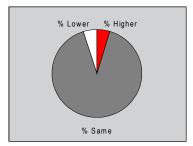


Job creation was recorded at manufacturing firms in India for the eighth successive month. Approximately 3% of panel members reported increased workforces, with the vast majority (97%) signalling no change. Consequently, the rate of growth was only slight and eased from September. Anecdotal evidence suggested that payroll numbers were increased to support growth in new orders.

# 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.



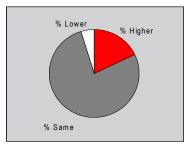


Charges in the Indian goods-producing sector increased during October, marking a 38-month sequence of output price inflation. However, the pace of increase was only modest and the slowest since November 2010. Panellists signalling increased factory gate prices cited higher raw material costs. There were also reports of rising chemical, leather, iron and gold prices.

# Input Prices Index

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

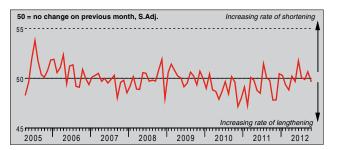


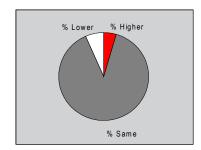


Input prices at manufacturing companies in India rose during October for the forty-third consecutive month. Although steep, the pace of inflation eased to the slowest since September 2010. Almost one-fifth of respondents reported higher purchase costs, mentioning increased transportation costs and stronger demand. Additionally, there were mentions of higher diesel and iron prices.

## Suppliers' Delivery Times Index

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



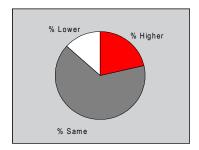


Manufacturers in India registered increased average lead times in October, amid reports of power shortages. That said, the rate of lengthening was only fractional and the Suppliers' Delivery Times Index adjusted for seasonal variations posted broadly in line with the long-run series average. Whereas nearly 7% of monitored companies indicated worsened vendor performance, the majority signalled no change from September.

# Quantity of Purchases Index

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



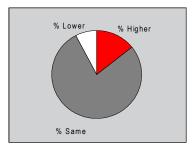


Purchasing activity in the Indian goods-producing sector increased in October, as has been the case since April 2009. Moreover, the rate of expansion was solid and accelerated to the fastest in four months. Firms reporting higher volumes of purchasing activity reasoned that growth reflected increased production.

# Stocks of Purchases Index

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





Manufacturing firms in India signalled increased pre-production inventories during October, marking a six-month sequence of growth. Although moderate, the rate of accumulation was the fastest in the current sequence. Approximately 14% of the surveyed panel indicated an accumulation of input inventories, mentioning higher production requirements.

## 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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