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HSBC India Manufacturing PMI™

Output expands at fastest rate in six months

Key findings:

- Growth in new orders also at a six-month high
- New export orders expand solidly
- · Purchasing activity increases for forty-fifth successive month

Output in the Indian manufacturing sector expanded during December, with the pace of growth sharp and the fastest in six months. New orders and new export orders both rose, with rates of increase sharp and solid respectively. Additionally, input buying expanded for the forty-fifth consecutive month. Meanwhile, input and output price inflation persisted.

The headline HSBC *Purchasing Managers' Index*TM (*PMI*TM) – a composite indicator designed to give a single-figure snapshot of operating conditions in the manufacturing economy. Readings above 50.0 indicate expansion and readings below 50.0 signal contraction. After adjusting for seasonal factors, the index posted 54.7 in December, up from 53.7 in November, to signal a further improvement in the health of the Indian manufacturing sector.

Output at manufacturing companies in India rose during December, amid reports of higher order book volumes. With almost one-third of panellists indicating higher production and 18% noting a decline, the overall rate of growth was sharp and the fastest in six months. Growth has now been sustained for 45 successive months.

The volume of incoming new work at manufacturers in India increased in December. The rate of growth was sharp, and the fastest in six months. New export orders also expanded, and at a solid pace. Anecdotal evidence suggested that total new work rose in line with the launch of new products and strengthening demand.

December data signalled job creation in the Indian goods-producing sector, amid reports of higher production requirements. However, there were mentions that labour shortages and demand for higher salaries weighed on payroll numbers. Whereas 5% of monitored companies reported increased staffing levels, the majority (91%) indicated no change. Subsequently, the overall pace of expansion was only slight.

Manufacturing companies in India signalled higher backlogs of work during December, amid reports of persistent powercuts. The rate of accumulation was sharp, and the fastest in the series history.

Meanwhile, stocks of purchases rose, albeit moderately. Panel members increased their input buying in line with anticipated rises in demand. In contrast, post-production inventories fell for the third successive month, but only modestly.

Input prices in the Indian manufacturing sector rose for the forty-fifth consecutive month. According to monitored companies, the rise in input costs reflected increased raw material prices, stronger demand and unfavourable exchange rates. Consequently, average selling prices rose again.

Purchasing activity in the Indian manufacturing sector increased for the forty-fifth consecutive month in December. With 26% of panellists signalling higher input buying and 15% noting a fall, the overall pace of growth was sharp and the fastest since June.



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.

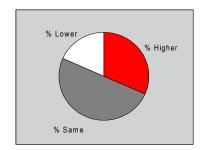




Output Index

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



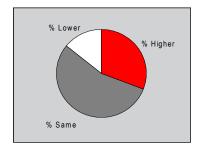


As has been the case since April 2009, output in the Indian manufacturing sector rose during December. The pace of expansion was sharp, and the fastest in six months. However, the seasonally adjusted Output Index posted below the series average. Almost one-third of monitored companies indicated output growth, with many mentioning higher order book volumes.

New Orders Index

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



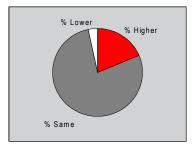


New work intakes in the Indian goods-producing sector rose during December, amid reports of stronger demand, the launch of new products and maintained product quality. Growth in new orders was sharp, and accelerated to the fastest since June. In contrast to 31% of respondents indicating higher volumes of incoming new work, 14% noted a fall. Growth has now been sustained for 45 successive months.

New Export Orders Index

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



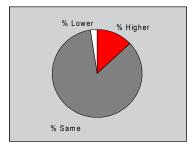


Manufacturers in India signalled increased new export business in December, marking a four-month sequence of growth. Almost 19% of panellists indicated higher export sales, against 3% that noted a fall. Consequently, the overall rate of expansion was solid, and the quickest in 11 months. Panel members indicated that the rise in new export orders reflected stronger demand and the launch of new products.

Backlogs of Work Index

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



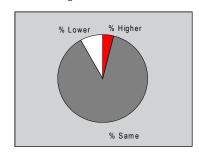


Continuing the trend that started in August, backlogs of work in the Indian manufacturing sector rose during December. The pace of accumulation was sharp and the fastest in 93 months of data collection. Anecdotal evidence suggested that the increase in the volume of work in hand (but not yet completed) reflected persistent powercuts. There were also mentions of labour shortages at some units.

Stocks of Finished Goods Index

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



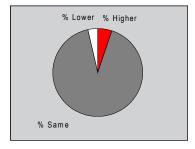


Stocks of finished goods at manufacturing companies in India fell during December, the third successive monthly decline registered. But, with 8% of the surveyed panel reporting lower post-production inventories and the vast majority (88%) indicating no change, the overall rate of depletion was only moderate.

Employment Index

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



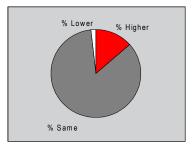


Job creation has been recorded in the Indian manufacturing sector during December for the tenth consecutive month. That said, the rate of expansion was only slight and broadly similar to November. According to respondents, staffing levels increased in line with higher production requirements, but labour shortages and demands for higher salaries resulted in slower expansion.

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.



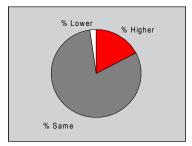


Continuing the trend that started in September 2009, average selling prices in the Indian manufacturing sector rose in December. Almost 14% of monitored firms indicated higher output prices, but 85% reported no change. Consequently, the overall rate of inflation was solid and broadly in line with that seen in November. Surveyed firms indicated that charges were increased to reflect higher raw material, transport and metal costs. There were also mentions of greater excise duty.

Input Prices Index

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

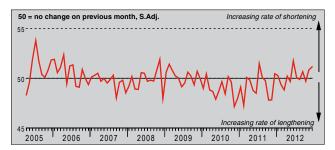


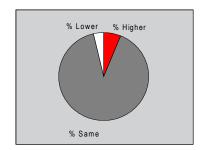


Input prices at Indian manufacturing companies increased during December, amid reports of higher raw material costs, stronger demand and unfavourable exchange rates. The pace of inflation was sharp, but slightly slower than in November. Cost inflation has now been recorded for 45 successive months.

Suppliers' Delivery Times Index

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



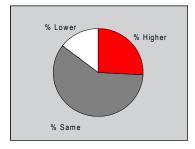


Manufacturers in India indicated shorter delivery times during December for the second consecutive month. Approximately 6% of panellists signalled improved vendor performance, but the majority (90%) reported no change. Consequently, the overall pace of shortening was only slight. Furthermore, the Suppliers' Delivery Times Index adjusted for seasonal factors posted above its long-run average.

Quantity of Purchases Index

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

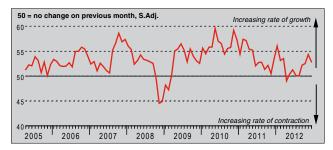


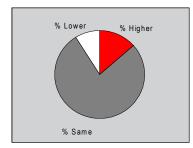


Purchasing activity in the Indian goods-producing sector rose during December, marking a 45-month sequence of expansion. Moreover, the rate of growth was sharp and the fastest since June. Respondents indicated that input buying was raised to meet production requirements. In contrast to one-quarter of panel members reporting a higher quantity of purchases, 15% noted a decline.

Stocks of Purchases Index

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





As has been the case since May, stocks of purchases in the Indian manufacturing sector increased during December. However, the pace of growth was moderate, and the Stocks of Purchases Index adjusted for seasonal factors posted slightly below the long-run series average. Almost 14% of panellists signalled rising pre-production inventories at their units, citing anticipated rises in 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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