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# HSBC India Manufacturing PMI™

Output growth weakens in January

#### Key findings:

- Powercuts hamper production growth
- · New orders expand solidly, but at slower rate
- Inventories used to satisfy demand where possible

Growth in Indian manufacturing output softened during January as power shortages restricted production, and led companies in some instances to utilise warehouse stocks. That said, new total business and export orders both increased solidly, but the rates of expansion eased from December. Despite higher staffing levels, backlogs of work were accumulated.

The headline HSBC Purchasing Managers' Index™ (PMI™) is a composite indicator designed to give a single-figure snapshot of operating conditions in the manufacturing economy. Readings above 50.0 indicate improvement and readings below 50.0 signal deterioration. After adjusting for seasonal factors, the index posted 53.2 in January, down from 54.7 in December, to signal a further (albeit slower) improvement in the health of the Indian manufacturing sector.

Continuing the trend that started in April 2009, output at manufacturers in India rose during January. Although solid, the rise in production was the slowest recorded in three months amid evidence from the survey panel that ongoing issues with the supply of power had restricted growth.

The volume of incoming new work expanded in January, the forty-sixth consecutive monthly increase recorded. Over one-fifth of the survey panel indicated higher levels of new orders, citing stronger demand and maintained product quality. Total new business rose solidly, although growth eased from December. Meanwhile, new export orders

increased for the fifth consecutive month, and also at a solid rate. Panel members stated that demand from foreign clients was higher.

In line with stronger sales, manufacturers in India increased their input buying in January. The overall rate of growth, although solid, eased to a three-month low.

A divergence was seen with regards to inventories as stocks of purchases were accumulated, but firms lowered their stocks of finished goods. Pre-production inventories rose for the ninth consecutive month, albeit only slightly. In contrast, post-production inventories were depleted as power shortages hampered production and inventories were used to satisfy demand requirements wherever possible.

Staffing levels in the Indian manufacturing sector increased during January, amid reports of higher workloads. That said, the pace of job creation was slight and unchanged from December. Nevertheless, backlogs of work were accumulated for a further month. Anecdotal evidence suggested that persistent powercuts resulted in higher levels of outstanding business.

Input and output prices both increased in January, with rates of inflation again marked. Input costs rose for the forty-sixth successive month, with respondents indicating that fuel and raw material prices had increased. Output charges were raised to protect margins in the face of higher costs.



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.

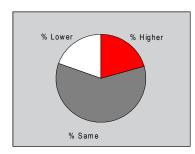




## **Output Index**

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



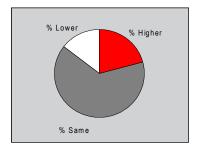


Manufacturing companies in India signalled increased production during January. Although solid, the rate of expansion as indicated by the seasonally adjusted Output Index was the slowest in three months. Anecdotal evidence suggested that higher levels of new orders resulted in rising production. Growth has now been sustained for 46 successive months.

## New Orders Index

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



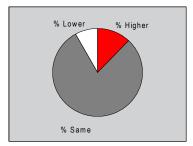


As has been the case since April 2009, the volume of incoming new work at manufacturing firms in India increased during January. The rise in new orders was solid, but eased from December. Moreover, the New Orders Index adjusted for seasonal variations posted below the long-run series average. Panel members linked growth in new orders to stronger demand and maintained product quality.

## New Export Orders Index

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



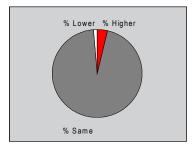


Continuing the trend that started in September 2012, total export business in the Indian manufacturing sector rose during January. The rate of expansion was solid, but the slowest in three months. Approximately 12% of monitored companies reported higher levels of new export orders, citing increased demand from foreign clients.

## Backlogs of Work Index

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



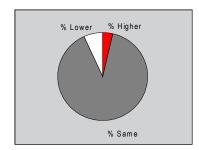


Marking a six-month sequence of accumulation, the level of unfinished business in the Indian manufacturing sector rose during January. But, with 4% of the survey panel reporting higher volumes of work-in-hand (but not yet completed) and 95% indicating no change, the overall rate of increase was only moderate. Panellists stated that production growth and persistent power shortages both fed through to the latest rise in backlogs of work.

## Stocks of Finished Goods Index

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



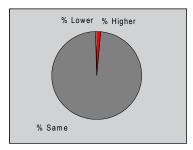


Manufacturers in India signalled falling stocks of finished goods during January, extending the current period of depletion to four months. However, the rate of decrease was modest and little-changed from December. Panel members indicated that power shortages had restricted output growth so post-production inventories were used to satisfy demand requirements.

#### **Employment Index**

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



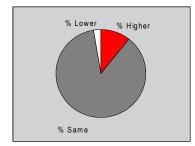


Payroll numbers at manufacturing companies in India rose during January, marking an 11-month sequence of job creation. However, with the vast majority (98%) of the survey panel indicating no change from the previous month, the overall pace of expansion was slight. Of those respondents reporting higher employment levels, increased workloads were mentioned.

## 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.



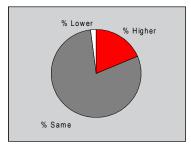


January data signalled persistent charge inflation in the Indian manufacturing sector. Average selling prices were raised for the forty-first successive month, and the rate of increase was solid. Almost 11% of monitored companies reported higher output prices, while 3% noted a fall. According to respondents, prices charged were increased in tandem with rising input costs.

## Input Prices Index

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

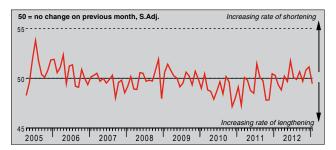


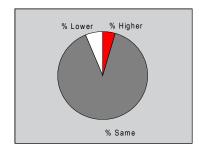


Input costs in the Indian manufacturing sector rose during January, amid reports of higher fuel and raw material prices. Although robust, the pace of inflation eased to a three-month low. In contrast to 19% of panellists indicating higher input prices, just 2% noted a fall. Cost inflation has now been recorded in each of the past 46 months.

## Suppliers' Delivery Times Index

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



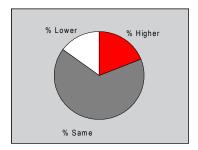


Following two months of improvement, vendor performance in the Indian manufacturing sector deteriorated during January. That said, average lead times lengthened only slightly, as the vast majority of monitored companies (89%) reported no change from the previous month. Anecdotal evidence suggested that powercuts had led to slower suppliers' delivery times.

## Quantity of Purchases Index

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



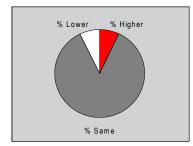


Manufacturers in India increased their quantity of purchases for the forty-sixth consecutive month in January. Although solid, the rate of expansion eased from December. In contrast to 19% of panellists reporting a higher quantity of items purchased, 15% noted a fall. Panel members stated that input buying rose in line with higher demand.

## 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 last year, pre-production inventories at manufacturing firms in India were accumulated during January. However, the rate of increase, as indicated by the Stocks of Purchases Index adjusted for seasonal factors, was only slight and the slowest in five months. Furthermore, the index posted below the series 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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