

HSBC India Manufacturing PMI™

Manufacturing operating conditions improve at slowest rate since November 2011 as power outages continue to hamper production

Key findings:

- Output expands at slowest pace in 16 months
- Growth in total new orders and export business eases
- Vendor performance deteriorates at fastest rate in over two years

Indian manufacturing business conditions continued to improve in March, but persistent powercuts weighed on growth. Moreover, the volume of incoming new work increased moderately and at the slowest pace in 16 months. Export orders expanded slightly, with the rate of growth easing to the slowest in seven months. Power shortages also impacted vendor performance, as suppliers' delivery times lengthened at the fastest pace in over two years. On the price front, both input and output price inflation eased from one month previously.

The headline *HSBC Purchasing Managers' Index™ (PMI™)* is an indicator derived from individual diffusion indices measuring changes in output, new orders, employment, suppliers' delivery times and stocks of purchases. Readings above 50.0 indicate improvement and below that threshold, contraction. After adjusting for seasonal factors, the PMI posted 52.0 in March, indicating an improvement in overall business conditions. However, the PMI was down to the lowest reading in 16 months.

March data signalled higher volumes of incoming new work in the Indian goods-producing sector. Growth in total new orders was, however, only moderate and the slowest in 16 months. Export orders rose slightly with the rate of expansion also easing. Output increased for the forty-eighth successive month, but persistent power shortages hampered production. Consequently, the pace of growth was modest, and the slowest

in 16 months.

Subsequently, Indian manufacturers depleted their stocks of finished goods to meet order requirements. Post-production inventories, however, fell only slightly. In contrast, holdings of raw materials and semi-manufactured goods were accumulated, albeit slightly. Meanwhile, purchasing activity rose for the forty-eighth month running. Despite expanding solidly, input buying rose at the slowest pace since October last year.

Average lead times in the Indian goods-producing sector lengthened for the third consecutive month, amid reports of powercuts and delayed payments to suppliers. Vendor performance deteriorated moderately, but at the fastest pace in over two years. Backlogs of work also rose, though only slightly. Meanwhile, firms increased their payroll numbers over the month. The rate of job creation was only moderate, but the fastest since last October.

Input prices increased during March, as has been the case in each month since April 2009. The rate of cost inflation was solid, but eased to the slowest in 32 months. Anecdotal evidence suggested that raw materials had increased in price, with some mentions of unfavourable exchange rates. Subsequently, average tariffs rose, but the rate of increase was moderate and the slowest since October 2012. Monitored firms indicated that increased competition had prevented them from passing on to clients the full burden of cost inflation.

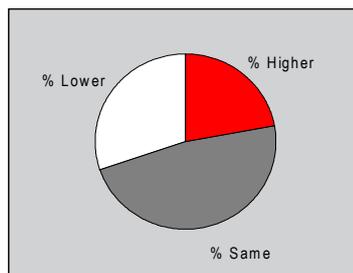
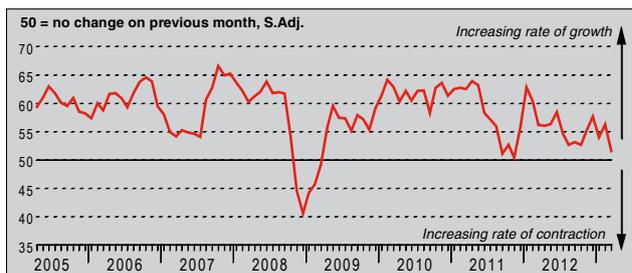
HSBC India Purchasing Managers' Index™ (PMI™)



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

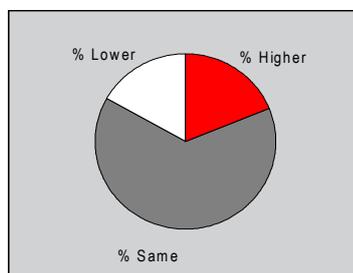
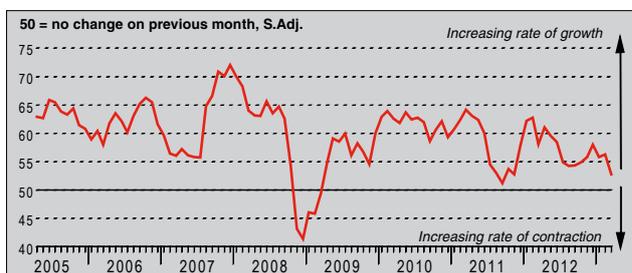
Q. Please compare your production/output this month with the situation one month ago.



Production at manufacturing companies in India rose during March, marking a 48-month sequence of expansion. However, the seasonally adjusted Output Index signalled that the pace of growth was modest and the slowest since November 2011. Panel members reported higher levels of incoming new work, but mentioned that persistent powercuts continued to hamper production.

New Orders Index

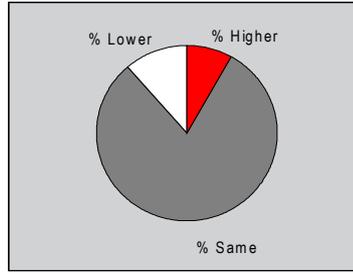
Q. Please compare the level of new orders received (India and export) this month with the situation one month ago.



March data signalled increased volumes of incoming new work in the Indian goods-producing sector, the forty-eighth in successive months. However, the rate of expansion was moderate and the slowest since November 2011. Moreover, the New Orders Index adjusted for seasonal variations posted well below the series average (59.9). Monitored companies linked growth in new orders to strong demand.

New Export Orders Index

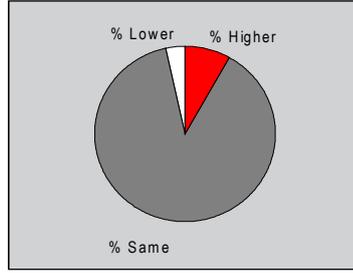
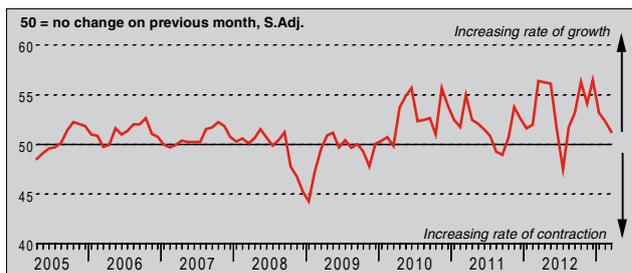
Q. Please compare the level of new export orders received this month with the situation of one month ago.



Extending the current sequence of growth to seven months, total export business at manufacturing companies in India rose during March. That said, the rate of expansion signalled by the seasonally adjusted New Export Orders Index was only slight and the slowest in that sequence. Anecdotal evidence suggested that demand from foreign clients increased over the month.

Backlogs of Work Index

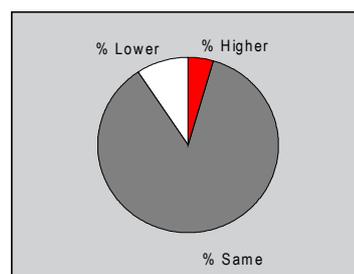
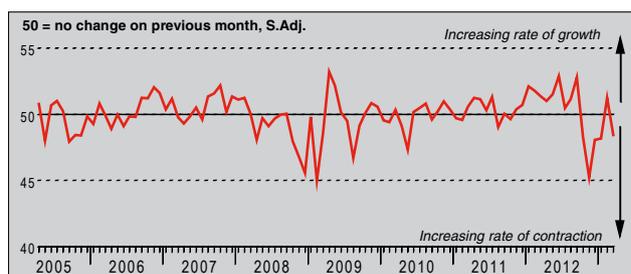
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Backlogs of work in the Indian manufacturing sector rose for the eighth successive month during March, amid evidence of power outages. But, with 8% of panel members indicating higher levels of outstanding business and the vast majority (88%) reporting no change, the overall pace of accumulation was only slight and the slowest in the current sequence.

Stocks of Finished Goods Index

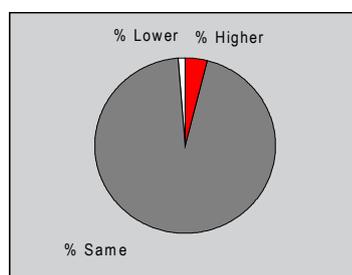
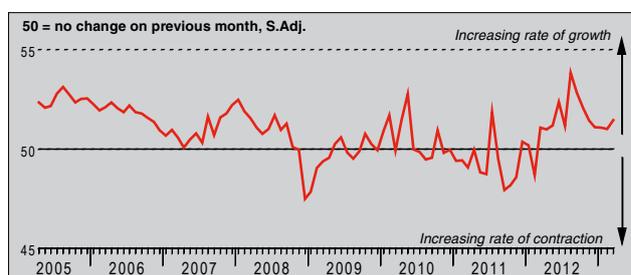
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



In contrast to an accumulation registered last month, post-production inventories in the Indian manufacturing sector were depleted during March. But, with 9% of survey participants reporting lower holdings of finished goods and the vast majority (86%) indicating no change, the rate of stock depletion was slight. A number of panellists mentioned that post-production stocks were depleted to meet new order requirements, as power shortages weighed on production.

Employment Index

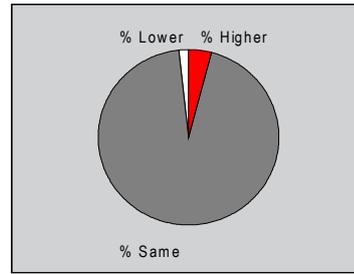
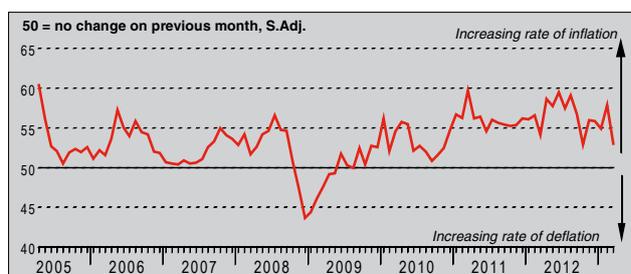
Q. Please compare the level of employment at your unit with the situation one month ago.



Staffing levels in the Indian manufacturing sector rose during March. Despite indicating a moderate expansion, the Employment Index adjusted for seasonal factors was at a five-month high and has now posted above the 50.0 no-change mark for 13 consecutive months. Panellists indicated that employee headcounts were increased in line with production growth.

Output Prices Index

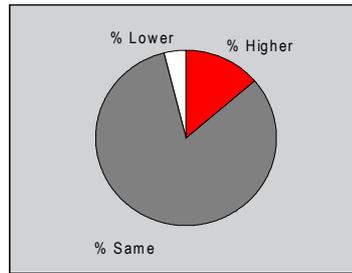
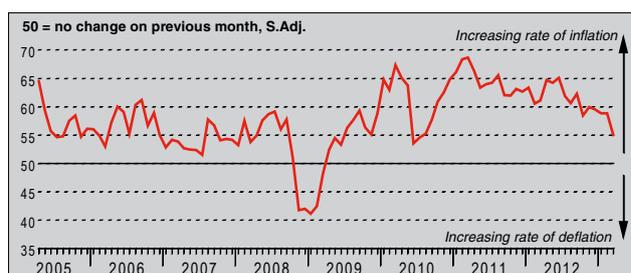
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Average selling prices in the Indian manufacturing sector rose during March, amid evidence of higher input costs. The rate of charge inflation was, however, only moderate and eased to the slowest since October last year. Whereas 4% of companies reported increased output prices, only 2% noted a fall. Output prices have increased in each month throughout the past three-and-a-half years.

Input Prices Index

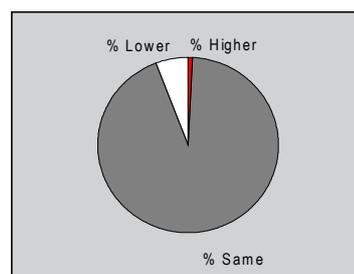
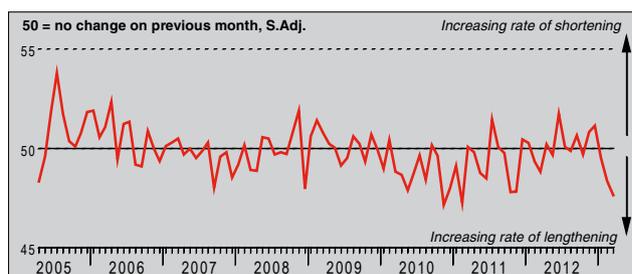
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Continuing the trend that started in April 2009, prices paid for inputs by manufacturers in India rose during March. Despite posting a solid rise, the rate of cost inflation eased to the slowest in 32 months. Anecdotal evidence suggested that raw materials in general had increased in price. There were also mentions of unfavourable exchange rates.

Suppliers' Delivery Times Index

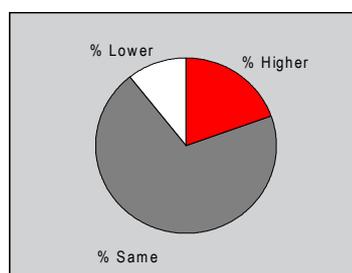
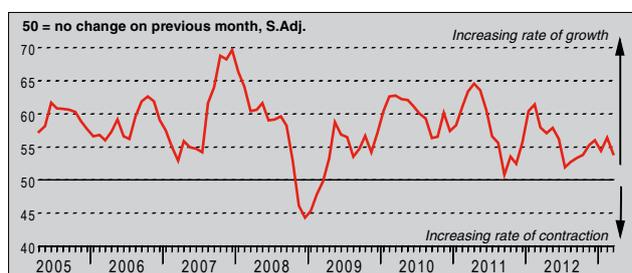
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Average lead times in the Indian manufacturing sector lengthened for the third consecutive month during March, amid reports of powercuts and delayed payments to suppliers. The rate of deterioration in vendor performance was moderate, but the fastest recorded in over two years. Almost 6% of respondents indicated slower suppliers' delivery times, while 93% reported no change from February.

Quantity of Purchases Index

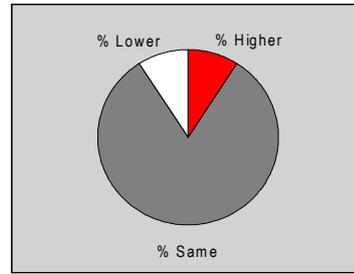
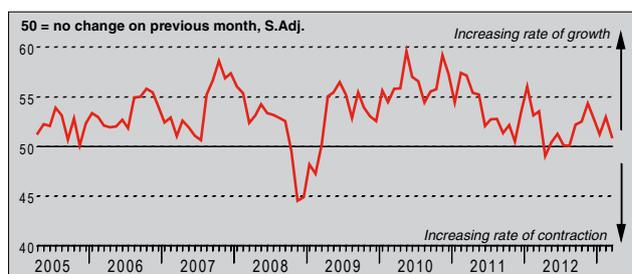
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



The quantity of items purchased by manufacturers in India rose solidly during March. Nevertheless, the rate of expansion eased to the slowest since October 2012. Almost 20% of monitored companies reported a higher quantity of purchases, citing strengthening demand. Conversely, 11% of panel members indicated lower purchasing activity.

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 goods-producing sector rose during March, extending the current sequence of accumulation to 11 months. However, the rate of increase, as indicated by the Stocks of Purchases Index adjusted for seasonal factors, was slight and the slowest since August last year. Panel members that reported higher stocks of raw materials and semi-manufactured goods linked the rise to increased new orders.

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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