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HSBC India Manufacturing PMI™

Manufacturing output falls for second consecutive month

Key findings:

- New orders decrease for first time in over four years, but exports expand solidly
- · Powercuts and fragile economic conditions weigh on sector performance
- · Fastest rise in employment since March

The HSBC Purchasing Managers' Index™ (PMI™), a composite indicator designed to give a single-figure snapshot of operating conditions in the manufacturing economy, recorded above the no-change threshold for the fifty-first consecutive month in June. At 50.3, up slightly from 50.1 in May, the latest index reading was consistent with a marginal expansion of the country's manufacturing sector.

Total new orders fell for the first time since March 2009 during June, although marginally. Panel members commented that economic conditions in India were fragile, resulting in lower demand. There were also reports of increased competition for new work. Export business, however, rose at the sharpest rate since January as demand from key foreign clients strengthened. Orders from abroad expanded at consumer and intermediate goods producers, but in the investment goods sector a decline was registered.

Reduced output levels were recorded for the second month running in June, amid evidence of tougher economic conditions and persistent powercuts. That said, the overall pace of contraction was slight and eased since May. Production fell across all three monitored sub-sectors, with the fastest decline recorded at consumer goods producers.

Nevertheless, the quantity of items purchased for production rose in June, taking the current expansionary sequence to 51 months. The rise in input buying was solid, and picked up pace since May. Surveyed firms reporting higher buying activity linked this to increased foreign demand and forecasts of better economic conditions in the coming months.

On the price front, input cost inflation accelerated to the sharpest since February. Monitored companies indicated that raw material prices in general had increased over the month, with some comments of unfavourable exchange rates. After discounting their prices charged in the previous month, manufacturers attempted to pass on to their clients their increased cost burden during June. The rate of charge inflation was, however, modest as competition for new work persisted and weighed on pricing power.

Amid reports of power, raw material and water shortages, backlogs of work were accumulated again in June. Sharp rises were registered across all three monitored sub-sectors. Subsequently, manufacturers added to their workforce numbers in June. A lack of labour availability, however, restricted hiring. Whereas job creation was recorded in the intermediate and consumer goods sectors, a moderate contraction was registered at investment goods producers.

June data highlighted further accumulations of both pre- and post-production stocks. Holdings of raw materials and semi-manufactured goods, nonetheless, increased modestly with panellists citing a scarcity of key raw materials.



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.

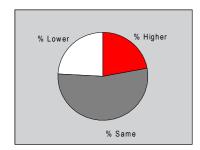




Output Index

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



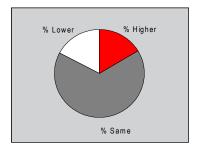


Output in the Indian manufacturing sector fell for the second consecutive month in June. However, the rate of contraction was slight and slowed since May. Monitored companies linked the latest decline in production to a lack of new, persistent powercuts and weak economic conditions. All three monitored sub-sectors registered decreases in output, with the fastest contraction noted at consumer goods producers.

New Orders Index

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



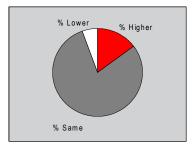


New orders placed at manufacturers in India fell during June, ending a 50-month period of growth. That said, the overall pace of contraction was marginal. Panellists reporting lower levels of incoming new work largely commented that softening domestic demand was a reflection of an increasingly fragile economy. There were also reports of competitive pressures.

New Export Orders Index

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



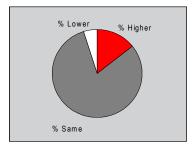


June data pointed to a further increase in new export business at manufacturers in India. The rise in foreign orders was solid, and the pace of growth accelerated to the quickest since January. Surveyed firms indicated that demand from key export clients had strengthened over the month. Consumer and intermediate goods producers both recorded higher export orders, but a marginal fall was registered in the investment goods sector.

Backlogs of Work Index

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

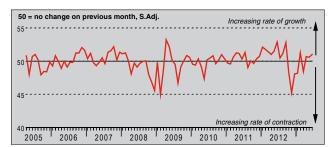


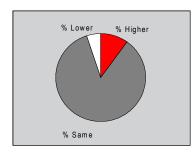


Pressure on operating capacity persisted during June, with backlogs of work increasing for the eleventh month running. The overall pace of accumulation was sharp and the fastest in six months. Additionally, the Backlogs of Work Index adjusted for seasonal influences was above the series average. According to panel members, power, water and raw material shortages were all behind the latest rise in unfinished business levels

Stocks of Finished Goods Index

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

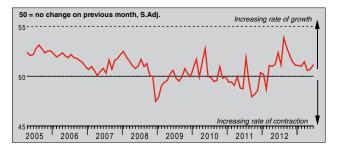


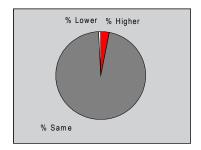


Holdings of finished goods in the Indian manufacturing sector rose during June. Despite being slight, the pace of accumulation accelerated to the quickest in the current three-month expansionary sequence. Furthermore, the seasonally adjusted Stocks of Finished Goods Index was above the long-run series average. Around twice as many survey respondents signalled higher post-production stocks as those that noted a fall.

Employment Index

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



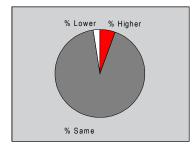


Reflective of attempts to complete unfinished business, manufacturers in India hired additional staff in June. Some companies, however, commented on a lack of labour availability. Subsequently, the rate of job creation was slight (although the most pronounced since March). Higher payroll numbers were signalled in both the intermediate and consumer goods sectors, with the fastest rise noted in the latter.

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.





Following a decline seen in May, average selling prices were increased by Indian manufacturers during June, amid reports of higher input costs. Competition for new work, however, prevented firms from fully passing on to clients the full burden of cost inflation. Consequently, the rate of increase was modest, with the Output Prices Index adjusted for seasonal influences posting well below the long-run series trend.

Input Prices Index

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

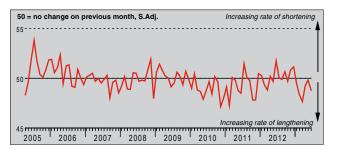


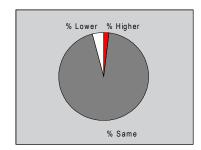


Purchase prices faced by Indian manufacturers rose for the fifty-first consecutive month in June. Having eased for three months running, the rate of cost inflation picked up to the most marked since February. Data implied that raw materials in general had increased in price. There were also comments of disadvantageous exchange rates.

Suppliers' Delivery Times Index

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



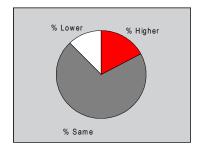


Average lead times in the Indian manufacturing sector lengthened during June, amid evidence of power outages and raw material shortages. Furthermore, vendor performance deteriorated to the greatest extent in three months. Longer delivery times were signalled in all three monitored categories, and was most pronounced in the consumer goods sector.

Quantity of Purchases Index

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



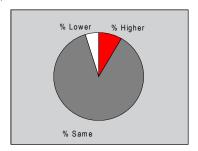


Reflective of stronger foreign demand and forecasts of better economic conditions at home, Indian manufacturers increased their buying activity during June. The rate of expansion accelerated since May and was solid overall. In contrast to 17% of survey participants that reported a higher quantity of items bought, around 12% noted a decrease.

Stocks of Purchases Index

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





Pre-production inventories were accumulated for the fourteenth successive month in June. However, with approximately 8% of manufacturers reporting higher holdings of raw materials and semi-manufactured goods and the majority (87%) noting no change from one month previously, the overall pace of increase was modest. Panellists stated that restocking reflected anticipated rises in new work, but also mentioned that key raw materials were scarce.

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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