Embargoed until: 10:30 (MUMBAI), 1 August 2013

# HSBC India Manufacturing PMI™

Indian manufacturing sector stagnates in July as output and new orders continue to fall

## Key findings:

- Operating conditions broadly unchanged since June
- Third consecutive decline in production volumes
- New orders decrease, but exports rise for eleventh month running

July's seasonally adjusted HSBC India Purchasing Managers' Index<sup>TM</sup> (PMI<sup>TM</sup>), a composite indicator designed to give a single-figure snapshot of operating conditions in the manufacturing economy, posted only fractionally above the 50.0 no-change threshold. Down from 50.3 in June to 50.1, the latest reading was indicative of a broad stagnation of manufacturing operating conditions in India.

Output fell for the third consecutive month in July, amid evidence of falling new orders, tough economic conditions and raw material shortages. The rate of decline, however, was fractional and eased since June. Lacklustre demand conditions had resulted in a further contraction of incoming new work, with sector data highlighting declines in the intermediate and investment goods sectors. Conversely, consumer goods producers signalled higher levels of new orders, but the rate of expansion was modest.

New export orders rose during July, taking the current expansionary sequence to 11 months. Panel members stated that foreign demand was maintained, but commented on increased competition. Subsequently growth of export business was modest and the weakest in three months.

Purchasing activity in the Indian manufacturing sector rose in July. That said, the pace of increase was marginal and the slowest in the current 52-month expansionary sequence. Weaker growth of input buying was mainly linked to falling new

work intakes. Of the three monitored sub-sectors only one registered higher buying activity, namely consumer goods.

Manufacturers indicated slower supplier delivery times in July, suggesting that the depreciation of the rupee meant vendors were reluctant to import raw materials. Subsequently, stocks of purchases fell for the first time since April 2012. The rate of depletion was, however, only slight. Meanwhile, holdings of finished goods were broadly unchanged in July.

In line with scarce raw materials at suppliers and powercuts, backlogs of work were accumulated for a further month in July. The rate of increase was solid, but the weakest in three months.

Inflationary pressures in the Indian manufacturing economy persisted in July. Output prices rose at the fastest rate since February, as companies attempted to pass on increased cost burdens. Amid reports of higher prices paid for metals, chemicals, plastic and paper, overall input prices rose sharply in July, and at the strongest rate in ten months. Firms indicated that imported raw material costs were greater, in particular due to a depreciation of the rupee.

July data highlighted a further expansion of employment levels in the Indian manufacturing sector. The rate of job creation remained slight. Payroll numbers rose in the consumer goods sector, stagnated at intermediate goods producers and fell at investment goods firms.



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.

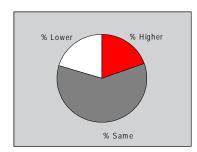




#### **Output Index**

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





Manufacturing production in India fell for the third consecutive month in July. The overall rate of decline was, however, fractional and the slowest in that sequence. Approximately 20% of monitored companies reported lower production levels, citing falling new orders, raw material shortages and tough economic conditions. There were also reports of powercuts, although to a lesser extent than seen in previous months.

### New Orders Index

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



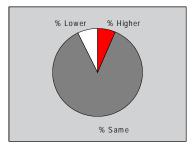


Order book volumes in the Indian manufacturing sector decreased for the second month running in July, amid reports of weaker demand. That said, the rate of contraction was slight and little-changed from June. New orders fell at both intermediate and investment goods firms, whereas an expansion was registered in the consumer goods sector.

## New Export Orders Index

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



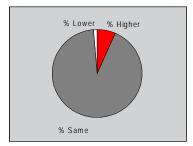


Foreign orders placed at Indian manufacturers rose in July. The rate of growth as indicated by the seasonally adjusted New Export Orders Index was modest, and the weakest in three months. Panel members suggested that demand from key export clients was maintained, but commented on increased competition. New business from abroad in the intermediate goods sector expanded solidly, whereas declines were registered at investment and consumer goods firms.

## Backlogs of Work Index

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



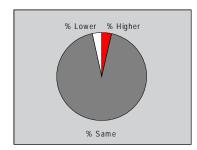


As has been observed in each month since August last year, backlogs of work in the Indian manufacturing sector rose in July. Despite being solid, the pace of increase eased to the weakest in three months. Anecdotal evidence suggested that power outages and a scarcity of raw materials were the main reasons behind the latest accumulation 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.



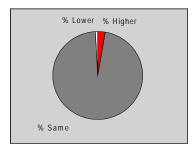


Post-production inventories in the Indian manufacturing sector were broadly unchanged in July, with the vast majority of respondents (93%) reporting no change from one month previously. Surveyed firms indicating higher holdings of finished goods cited weaker-than-expected demand. Companies reporting a decrease mentioned that stocks were used to fulfil existing orders.

#### **Employment Index**

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



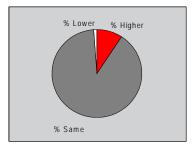


Indian manufacturers increased their staffing levels in July, albeit slightly. Employee headcounts rose in the consumer goods sector, but fell at investment goods companies. In the intermediate goods sector, payroll numbers were unchanged. Almost 3% of the survey panel signalled job creation, but the majority indicated no change in their workforce numbers.

## 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.



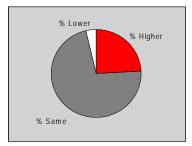


Reflective of increased cost burdens, Indian manufacturers raised their prices charged in July. Average selling prices rose solidly and at the strongest rate since February. Nevertheless, the seasonally adjusted Output Prices Index posted broadly in line with the long-run series average. All three monitored categories signalled higher factory gate prices, with the fastest rise noted at intermediate goods producers.

## Input Prices Index

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

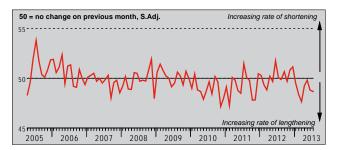


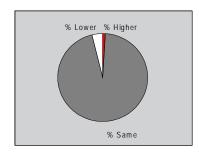


Continuing the trend that started in April 2009, input prices in the Indian manufacturing sector rose in July. The rate of cost inflation was sharp and accelerated to the quickest in ten months. Panellists reported higher prices paid for a range of raw materials, including metals, chemicals, plastic and paper. A depreciation of the rupee was widely mentioned as having raised the cost of imported inputs.

## Suppliers' Delivery Times Index

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



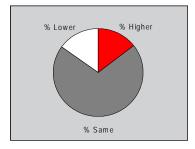


Vendor performance deteriorated for the seventh consecutive month in July. That said, average lead times lengthened slightly and at a similar pace to that seen in June. Panel members indicated that slower delivery times reflected raw material shortages at suppliers, particularly commenting that a depreciation of the rupee had led to a reduction in demand for imports from vendors.

### Quantity of Purchases Index

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

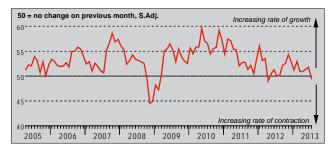


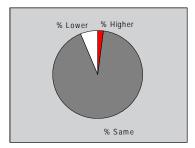


The quantity of inputs bought by Indian manufacturers rose in July, taking the current expansionary period to 52 months. However, the rate of growth as signalled by the seasonally adjusted Quantity of Purchases Index was marginal, and the weakest in that sequence. Whereas purchasing activity in the consumer goods sector expanded, a decline was noted at investment goods firms. Intermediate goods producers recorded no change in buying activity since June.

## Stocks of Purchases Index

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





Holdings of raw materials and semi-manufactured goods fell in July, ending a 14-month period of inventory building. However, the rate of depletion was slight, with almost 92% of respondents indicating no change in their pre-production stocks since June. Monitored companies reporting lower stocks of purchases mentioned cost-cutting measures. Others commented that raw material shortages at suppliers led to the utilisation of stock.

## 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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