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HSBC India Manufacturing PMI™

Manufacturing operating conditions deteriorate for first time in over four years

Key findings:

- PMI drops to 48.5 in August (July: 50.1)
- Rates of contraction in output and new orders accelerate
- First decline in new export business for a year

Business conditions in the Indian manufacturing sector deteriorated during August for the first time in over four years, with both output and new orders falling at faster rates. Export orders also declined, ending an 11-month sequence of growth.

The seasonally adjusted HSBC India *Purchasing Managers' Index™* (*PMI™*) – an indicator derived from individual diffusion indices measuring changes in output, new orders, employment, suppliers' delivery times and stocks of purchases – fell from 50.1 to 48.5 in August, indicating a moderate deterioration of business conditions. The latest index reading was the lowest in four-and-a-half years and the first sub-50.0 reading since March 2009.

Amid reports of fragile economic conditions and subdued client demand, new orders placed at Indian manufacturers fell solidly in August. Furthermore, the rate of contraction accelerated to the fastest since February 2009. Order book volumes across the intermediate goods sector decreased at a sharp and accelerated pace, while consumer goods producers registered a slight decline. New business from abroad also fell, ending an 11-month sequence of growth. Anecdotal evidence suggested that competitive pressures increased and that demand from key export clients was weaker.

Consequently, Indian manufacturers reduced their production volumes for the fourth consecutive month in August and at the fastest rate in four-and-a-half years. Output fell at both investment and intermediate goods firms, with the latter recording

the sharper decline. Correspondingly, stocks of finished goods decreased for the first time since March, albeit moderately.

Reflective of falling volumes of incoming new work, input buying decreased in August, ending a period of growth that lasted for over four years. The latest contraction in purchasing activity was broad-based, with all three monitored sub-sectors registering lower buying activity. Subsequently, pre-production stocks fell during the latest month. The rate of depletion was solid and the quickest in almost five years.

Encouragingly, Indian manufacturers continued to add to their workforce numbers in August. However, rates of job creation were slight across all three monitored categories.

Meanwhile, vendor performance deteriorated further in August. Firms associated longer delivery times with raw material shortages at suppliers and largely commented that the depreciation of the rupee against the US dollar had led to a reluctance among vendors to import raw materials.

Prices paid for inputs by Indian manufacturers rose in August, amid reports of a weaker rupee. The rate of cost inflation remained strong, but eased since July.

In an attempt to pass on part of their increased cost burden, firms raised their selling prices again. However, competitive pressures limited manufacturers' pricing power and charges were raised only slightly.



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.

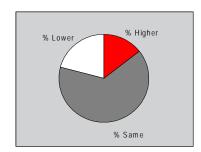




Output Index

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



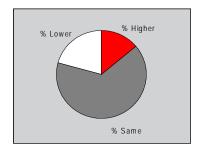


Manufacturing output across India fell at a solid and accelerated pace in August, reflecting a sharp decrease recorded in the intermediate goods sector. Production volumes were unchanged in the consumer goods sector and fell at capital goods producers. The seasonally adjusted Output Index posted below the no-change threshold for the fourth month running and was at a four-and-a-half year low. Over one-fifth of panellists reported lower production levels, citing weak economic conditions and a lack of new projects.

New Orders Index

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



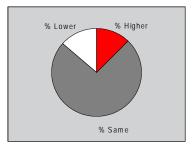


August data highlighted a third consecutive monthly contraction of new orders placed at Indian manufacturers. The rate of decrease was solid and the fastest since February 2009. Intermediate goods producers signalled a sharp and accelerated drop in order book volumes, while consumer goods firms recorded a slight contraction. Anecdotal evidence suggested that economic conditions in India had deteriorated and that both domestic and export demand weakened.

New Export Orders Index

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



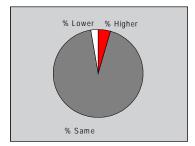


New orders from abroad fell for the first time in a year during August, with Indian manufacturers commenting on increased external competition and weaker demand from key export clients. However, the seasonally adjusted New Export Orders Index posted just below the 50.0 no-change mark and was consistent with a marginal contraction overall. Sector data pointed to lower levels of foreign orders across both the intermediate and investment goods sectors, whereas a marginal expansion was recorded at consumer goods producers.

Backlogs of Work Index

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



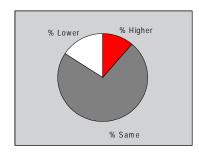


The rate at which unfinished business levels were accumulated eased in August, with Indian manufacturers reporting softer pressures on operating capacity as a result of falling new work. The Backlogs of Work Index adjusted for seasonal influences registered above the 50.0 no-change level for the thirteenth successive month, but pointed to the slowest rise in outstanding business since April. Consumer and investment goods producers both saw a slowdown in the rate of backlog accumulation, whereas a slight acceleration was recorded in the intermediate goods sector.

Stocks of Finished Goods Index

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



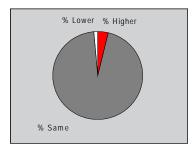


Companies operating in the Indian manufacturing sector indicated that holdings of manufactured goods fell in August. This was indicated by the seasonally adjusted Stocks of Finished Goods Index posting below the no-change mark for the first time since March. Almost 16% of the survey panel reported lower post-production inventories and commonly associated the latest decline with falling production levels. A number of companies also commented on raw material shortages at suppliers.

Employment Index

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



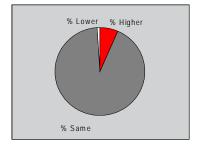


Employment in the Indian manufacturing sector increased during August, marking an 18-month sequence of job creation. Staffing levels rose slightly and at a similar pace to July. Those panellists indicating higher workforce numbers commented on increased business requirements. Growth of payroll numbers was broad-based with all three monitored categories signalling 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.



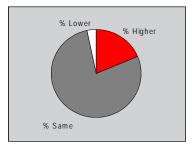


Factory gate prices in the Indian manufacturing sector rose in August. That said, the rate of charge inflation was only slight and eased since July. Increased cost burdens was cited by panellists as the main reason for the latest rise in output prices, but competitive pressures limited pricing power. The rate of charge inflation eased at intermediate goods producers, but accelerated at consumer goods firms. Prices charged by capital goods manufacturers were reduced during August.

Input Prices Index

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

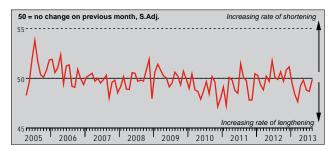


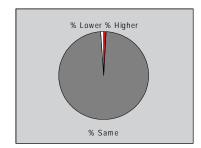


Amid reports of a depreciation of the rupee against the US dollar, input prices rose further in August. The rate of cost inflation remained robust, but eased from July's 10-month peak. All three monitored sub-sectors registered higher input costs, with the fastest rise noted in the intermediate goods sector, followed by consumer goods. Survey participants reported higher prices paid for a number of raw materials, including metals, chemicals, plastic, textile and energy.

Suppliers' Delivery Times Index

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



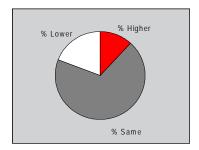


Indian manufacturers reported a deterioration of vendor performance in August, as has been the case since January. However, with the vast majority of panellists indicating no change in supplier delivery times, the overall degree of lengthening was fractional. Those firms signalling longer delivery times commented on raw material shortages at vendors, in part associated with the depreciation of the rupee.

Quantity of Purchases Index

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



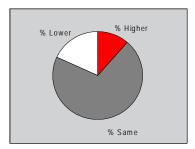


The quantity of items purchased by Indian manufacturers fell in August, ending a period of growth that had been recorded for over four years. Approximately 19% of respondents signalled a lower quantity of purchases, while almost 12% noted an increase. Subsequently, the rate of contraction was moderate. Input buying decreased in all three sub-sectors, with the fastest decline registered in the intermediate goods sector. Data implied that purchasing activity fell in line with lower volumes of incoming new work.

Stocks of Purchases Index

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





Reflective of lower buying activity, pre-production stocks in the Indian manufacturing sector fell during August. With 18% of respondents indicating lower holdings of raw materials and semi-manufactured goods, the rate of depletion was solid and the fastest in almost five years. Rates of contraction were moderate at both consumer and investment goods producers, while a sharp decline was noted in the intermediate goods sector.

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' IndexTM (PMITM) 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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