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HSBC India Manufacturing PMI™

PMI signals second successive monthly deterioration of operating conditions

Key findings:

- PMI remains below neutral 50.0 mark, but rises to 49.6 in September
- Output and new orders contract at slower rates
- Employment falls for first time in 19 months

Operating conditions across the Indian manufacturing sector deteriorated for the second consecutive month in September. However, both output and new orders contracted at slower rates. Still, faced with fewer projects, companies reduced their workforce numbers for the first time since February 2012.

Up from 48.5 in August to 49.6 in September, 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 – indicated a marginal and slower deterioration of business conditions in India. However, the PMI quarterly average for Q3 was the lowest since Q1 2009.

September data pointed to a further contraction of manufacturing production in India, with panellists commenting on lower levels of incoming new work and economic instability. The overall rate of contraction was, however, marginal and eased since August.

Although new orders fell at a slower and marginal pace, the contraction of export business accelerated to the quickest in over two years. Anecdotal evidence suggested that a depreciation of the rupee versus the US dollar had resulted in higher prices paid for inputs and limited firms' ability to price competitively.

Subsequently, Indian manufacturers reduced their buying activity for the second month running in September. However, quantity of purchases fell only slightly and at a slower rate than that seen one month previously.

Sector data highlighted capital goods as the best performing sub-sector in September, with production, new orders and purchasing activity all expanding. Conversely, both consumer and intermediate goods producers posted falls in all of these variables.

Reflective of a further reduction in new order levels, Indian manufacturers cut their staffing levels in September. Despite being marginal, the latest fall ended a period of job creation that had lasted for one-and-a-half years. Concurrently, backlogs of work were accumulated. That said, the rate of increase was slight and the weakest in the current 14-month sequence of growth.

Amid reports of a weaker currency, manufacturing firms reported higher prices paid for imported raw materials. Overall input costs rose sharply, with all three sectors covered by the survey signalling stronger rates of cost inflation in the latest month. Furthermore, the index measuring purchasing costs climbed to its highest mark in 15 months. Consequently, prices charged were raised further. The rate of charge inflation was, however, only slight and the slowest in three months.

A divergence was seen with regards to inventory levels in September. Pre-production inventories fell in line with lower purchasing activity, while holdings of finished goods were accumulated at a slight pace. Intermediate and capital goods producers recorded higher post-production inventories, while little change was signalled at consumer 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.

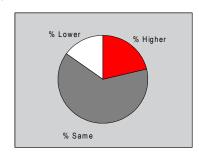




Output Index

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



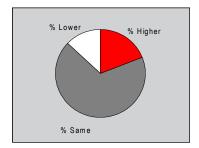


Manufacturing production in India fell for the fifth successive month in September, amid evidence of lower volumes of incoming new work and economic instability across the country. However, adjusted for seasonal factors, the Output Index was consistent with a marginal contraction and one that was slower than August's. Two of the three sectors monitored by the survey registered lower production levels, the exception being investment goods.

New Orders Index

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



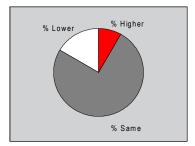


September data pointed to a further contraction of new orders received by Indian manufacturers, with panellists citing weaker demand. This was indicated by the seasonally adjusted New Orders Index posting below the neutral 50.0 threshold for the fourth month running. The overall pace of decline was, however, marginal and the weakest since June. As was the case for output, consumer and intermediate goods firms signalled lower levels of incoming new work, while growth was registered at investment goods producers.

New Export Orders Index

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



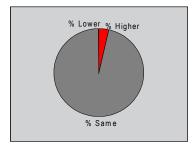


For the second consecutive month, new export orders in the Indian manufacturing sector fell in September. The rate of contraction was solid and the New Export Orders Index adjusted for seasonal influences dropped to its lowest in over two years. Anecdotal evidence suggested that unfavourable exchange rates was the main factor behind the latest fall in foreign demand. Among the three monitored sub-sectors, the sharpest reduction was noted at intermediate 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.



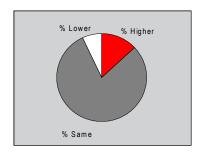


Despite having fewer new order levels, Indian manufacturers accumulated backlogs of work in September, which companies linked to machinery repairs and job losses. The rate of increase as indicated by the seasonally adjusted Backlogs of Work Index was, however, slight and the weakest in the current 14-month sequence of accumulation. All three surveyed sub-sectors recorded higher volumes of work-in-hand (but not yet completed)

Stocks of Finished Goods Index

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



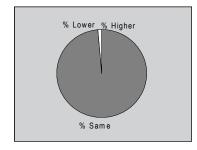


Indian manufacturers signalled increased post-production stocks in September, following a depletion recorded one month previously. The seasonally adjusted Stocks of Finished Goods Index posted slightly above the long-run series average, and was indicative of a marginal accumulation. Whereas inventory growth was recorded at intermediate and capital goods companies, holdings of manufactured goods in the consumer goods sector were broadly unchanged.

Employment Index

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



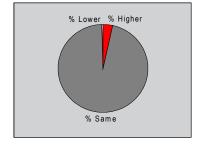


Manufacturing employment across India fell in September, ending a sequence of job creation that had lasted for one-and-a-half years. That said, with around 2% of survey participants reporting workforce reduction and the vast majority indicating no change since August, the overall pace of job losses was only marginal. Among those companies signalling job cuts, the non-replacement of voluntary leavers was mentioned. There were a few reports of labour shortages.

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.



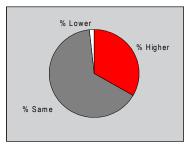


September data highlighted a slight rise in prices charged by Indian manufacturers. Survey participants indicated that selling prices were raised in attempts to pass on additional cost burdens. However, panellists commented on limited pricing power and rates of charge inflation were slight across all three sub-sectors. Intermediate goods firms signalled the fastest increase.

Input Prices Index

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

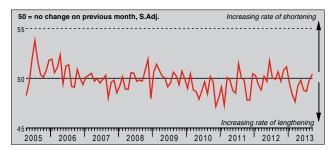


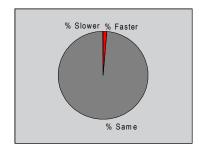


Input prices in the Indian manufacturing economy rose at a sharp and accelerated rate in September. The seasonally adjusted Input Prices Index climbed to its highest level in 15 months, and was well above the series average. Panellists indicated that a depreciation of the rupee against the US dollar had resulted in higher prices paid for a range of imported raw materials, including metals, chemicals, plastic and paper. Faster rates of input cost inflation were recorded across all three sectors covered by the survey.

Suppliers' Delivery Times Index

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

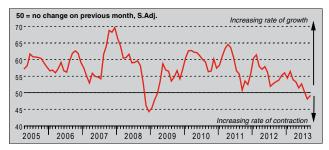


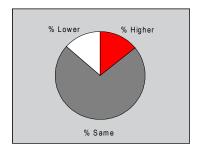


Ending an eight-month sequence of worsening vendor performance, average lead times shortened in September. That said, just over 1% of firms signalled faster supplier delivery times, while the vast majority indicated no change from one month previously. Anecdotal evidence suggested that weaker demand for raw materials had eased pressures at vendors.

Quantity of Purchases Index

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



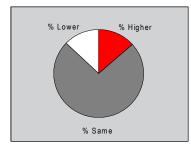


Reflective of lower new order levels, Indian manufacturers reduced their purchasing activity for the second consecutive month in September. However, the rate of contraction was slight and eased since August. Input buying fell at consumer and intermediate goods producers, while modest growth was recorded in the capital goods sector.

Stocks of Purchases Index

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





The Stocks of Finished Goods Index adjusted for seasonal variations posted below the 50.0 no-change mark for the third successive month in September, pointing to a further contraction of pre-production inventories in the Indian manufacturing sector. The latest index reading was, however, consistent with a slight pace of decline and one that was weaker than in August. Panel members suggested that lower holdings of raw materials and semi-manufactured goods reflected a reduction of buying activity.

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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