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HSBC India Manufacturing PMI™

PMI indicates deteriorating manufacturing operating conditions for third month running

Key findings:

- Headline index at 49.6, unchanged since September
- Rate of decline in output volumes accelerates
- · New orders contract, but export business expands for first time in three months

October data indicated falling levels of production and new orders in the Indian manufacturing economy, as the business climate within India remained tough. However, there was some positive news on the export front as foreign orders grew for the first time since July.

Unchanged from September's 49.6, 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 third, albeit marginal, successive deterioration of business conditions across India.

Reflective of a sustained reduction in order books, Indian manufacturers lowered their production volumes in October. Although modest, the pace of decline accelerated from September. Incoming new work also fell at a faster rate, with survey participants commenting on weaker demand and a difficult economic climate. Some firms indicated that the cyclone Phailin had also led to fewer numbers of new orders placed.

Encouragingly, export business expanded for the first time in three months during October. Anecdotal evidence suggested that the weaker rupee had boosted foreign demand in the latest month. The overall pace of growth was, however, moderate and weaker than the series average.

Latest data highlighted consumer goods as the best performing sector in October, with production, new orders and export business all rising. Conversely, intermediate goods was the worst performing category.

Despite reduced new orders, Indian manufacturers accumulated unfinished business in October. Backlogs of work rose at the quickest pace since July, amid evidence of powercuts.

Meanwhile, buying activity fell for the third month running in October. Declines in the intermediate and capital goods categories offset growth recorded in the consumer goods sector.

Stronger new order flows at consumer goods manufacturers led firms to recruit additional workers in October. However, with investment and intermediate goods firms indicating job shedding, the overall rate of employment growth across the Indian manufacturing sector as a whole was marginal.

Inflationary pressures persisted in October, with input cost inflation accelerating to a 16-month peak and selling prices rising at the fastest pace since February. Manufacturers commented that the weaker rupee had led to higher prices paid for imported raw materials and that additional cost burdens were partly passed on.

Inventory levels rose in October. Growth in post-production stocks accelerated to a moderate pace, while holdings of raw materials and semi-manufactured goods were accumulated for the first time in four months (although marginally).



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.

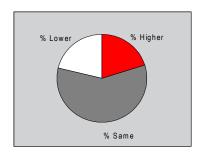




Output Index

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



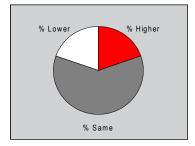


Indian manufacturers signalled lower output levels in October, marking a six-month sequence of reduction. Despite being modest, the overall rate of contraction accelerated from that seen in September. Survey participants indicated that production fell in line with a further decline in order book volumes and, to a lesser extent, power shortages. Output contracted at both intermediate and capital goods producers, while modest growth was recorded in the consumer goods sector.

New Orders Index

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

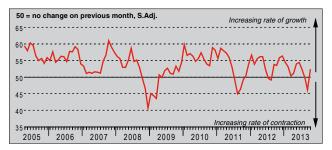


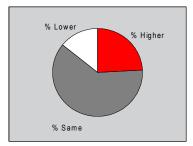


Although slight, new work placed at Indian manufacturers fell at a faster rate in October amid reports of lower demand and tough economic conditions. There were also reports that the cyclone Phailin had resulted in fewer numbers of new orders received. As with the trend seen for output, incoming new orders fell at intermediate and capital goods firms, whereas consumer goods producers signalled growth.

New Export Orders Index

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



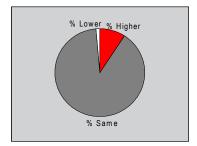


October data highlighted growth of new export orders across the Indian manufacturing sector, with survey participants indicating that the weaker rupee had boosted foreign demand. The overall pace of expansion was, however, moderate and weaker than the series average. Consumer goods firms registered higher levels of orders from abroad, while a decline was recorded at intermediate goods producers. Foreign orders in the investment goods sector were broadly unchanged from the levels recorded in September.

Backlogs of Work Index

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



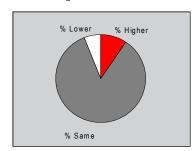


Indian manufacturers accumulated unfinished business in October, stretching the current period of growth to 15 months. Backlogs of work increased at a solid pace that was the strongest since July. The latest expansion in outstanding business volumes was in part linked by panellists to power outages. Growth of work-in-hand was broad-based, with all three categories covered by the survey recording expansions.

Stocks of Finished Goods Index

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

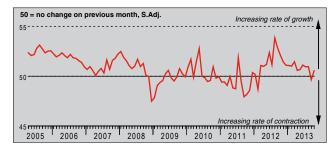


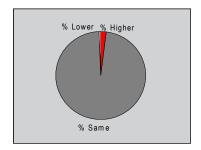


Holdings of manufactured goods across India rose for the second month running in October. Adjusted for seasonal factors, the Stocks of Finished Goods Index climbed to its highest mark in 13 months and was consistent with a moderate pace of growth. Panellists commonly associated higher post-production inventories with weaker-than-expected demand. Increases in the consumer and intermediate goods sectors contrasted with a decline signalled by capital goods firms.

Employment Index

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



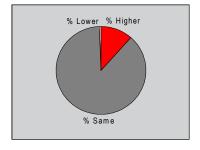


After falling in September for the first time in 19 months, manufacturing employment in India rose during October. However, the pace of jobs growth was only marginal as the majority of respondents (97%) indicated no change in their workforce numbers since last month. A solid increase in staffing levels across the consumer goods category counterbalanced declines in the intermediate and investment goods sectors.

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.



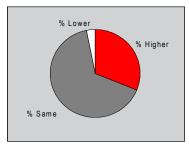


Average tariffs set by Indian manufacturers were raised for a fifth month in succession during October. Moreover, the seasonally adjusted Output Prices Index soared to its highest mark in eight months and was indicative of a sharp overall increase. Companies indicated that the latest rise in charges reflected attempts to pass on additional cost burdens. The strongest rate of charge inflation was noted at consumer goods firms, followed by intermediate and capital goods producers respectively.

Input Prices Index

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

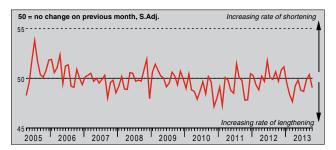


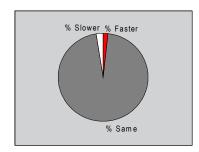


Amid reports of higher prices paid for metals, chemicals, plastics, paper, timber and textiles, average cost burdens in the Indian manufacturing sector rose in October. Most of the increase was attributed by survey respondents to the weaker rupee resulting in higher import costs. The rate of cost inflation was sharp and accelerated to a 16-month peak. Purchase prices rose across all three manufacturing categories, led by intermediate goods.

Suppliers' Delivery Times Index

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



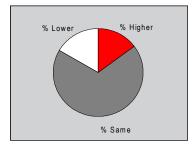


Contrasting with an improvement recorded last month, vendor performance deteriorated in October. However, average lead times lengthened at a slight pace, as the vast majority of respondents (almost 96%) indicated no change in delivery times since September. Anecdotal evidence highlighted low stock levels at suppliers.

Quantity of Purchases Index

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



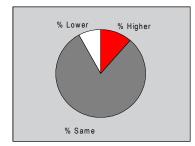


Adjusted for seasonal factors, the Quantity of Purchases Index posted below the 50.0 no-change mark for the third consecutive month in October, indicating contraction. Although modest, the overall rate of decline accelerated since September. Almost 17% of monitored firms reported lower buying activity, citing falling new work. Input buying fell at both intermediate and investment goods firms, whereas consumer goods producers signalled growth.

Stocks of Purchases Index

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





Ending a three-month sequence of reduction, pre-production inventories in the Indian manufacturing sector rose in October. That said, the growth rate was only slight and the seasonally adjusted Stocks of Purchases Index recorded well below the series average. Holdings of raw materials and semi-manufactured goods fell in the intermediate and investment goods sub-sectors, while growth was noted at consumer goods companies.

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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