

HSBC India Manufacturing PMI™

Manufacturing operating conditions improve at strongest pace in ten months

Key findings:

- PMI up from 50.7 to 51.4 in January
- Output expands solidly, as new order growth accelerates
- New export business increases at quickest pace since June 2013

Indian manufacturers signalled a further improvement in operating conditions during January. The headline *HSBC India Purchasing Managers' Index™ (PMI™)* – a seasonally adjusted index designed to measure the performance of the manufacturing economy – posted 51.4, up from 50.7 in December. The latest reading was the highest since March 2013, but pointed to a marginal pace of expansion that was well below the series average (55.1).

January saw new orders expand at the quickest rate in ten months, with survey participants reporting stronger demand from both domestic and overseas clients. Concurrently, new business from abroad grew at a solid pace that was the fastest since June last year. Subsequently, Indian manufacturers raised their production levels for the third successive month. The rate of output growth was solid and the strongest since February 2013.

Sector data indicated that consumer goods continued to outperform the remaining two monitored categories, while operating conditions deteriorated at capital goods producers. Growth rates for output and new orders in the consumer goods sub-category surpassed those seen at intermediate goods companies.

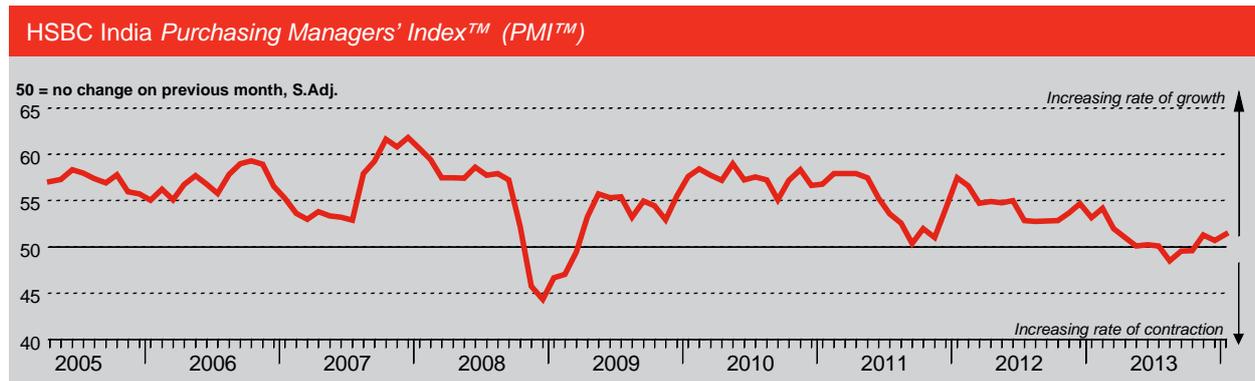
Employment rose for the fourth month running in January, with all three broad areas of the manufacturing economy posting job creation. Despite being slight, the overall rate of expansion was broadly in line with the long-run series average.

Companies operating in the Indian manufacturing sector signalled pressure on operating capacity in January, as backlogs of work increased solidly. Moreover, the latest increase in unfinished work was the eighteenth in as many months. All three market groups posted higher work-in-hand, with the sharpest increase noted at consumer goods firms.

Amid reports of new business gains, purchasing activity in the Indian manufacturing economy rose at the start of 2014, although the pace of expansion was only slight and well below the series average. Growth of buying activity was largely centred on the consumer goods sub-sector. Pre-production stocks increased at consumer goods producers, but fell at both capital and intermediate goods firms. This resulted in an overall decline of stocks of purchases across the Indian manufacturing economy as a whole.

Meanwhile, supplier performance improved in the latest month for the first time since September 2013. Anecdotal evidence suggested that shorter delivery times reflected a greater availability of raw materials at vendors.

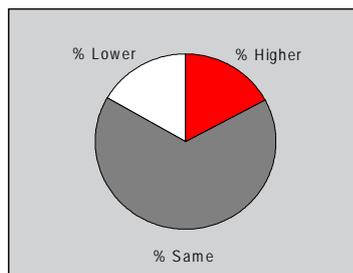
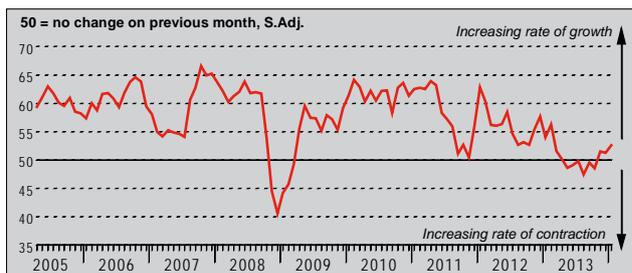
Average input costs rose in January, with manufacturers reporting higher prices for a range of raw materials, including metals, chemicals and energy. The rate of cost inflation remained robust. Consequently, companies raised their tariffs again. Although the strongest in three months, the latest rise in output charges was moderate and much weaker than seen for input costs.



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 either registered trademarks of Markit Economics Limited or licensed to Markit Economics Limited. HSBC use the above marks under licence. Markit is a registered trade mark of Markit Group Limited.

Output Index

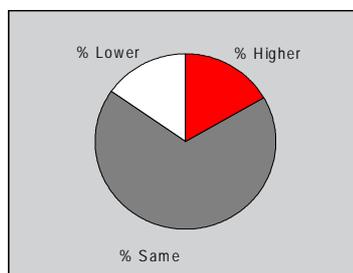
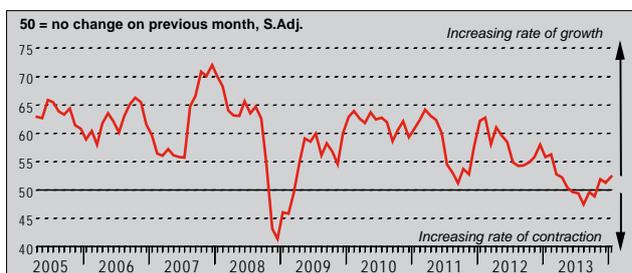
Q. Please compare your production/output this month with the situation one month ago.



January data indicated that manufacturing production across India increased, stretching the current sequence of growth to three months. Adjusted for seasonal factors, the Output Index climbed to its highest mark since February 2013 and was consistent with a solid pace of expansion. Panellists reported new contract wins as the main reason behind the latest rise in production levels. Higher output was recorded at both consumer and intermediate goods producers, while capital goods firms posted a reduction.

New Orders Index

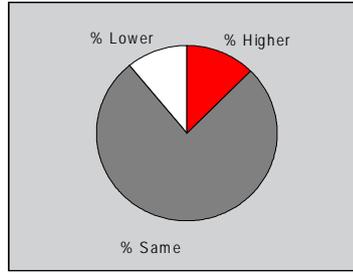
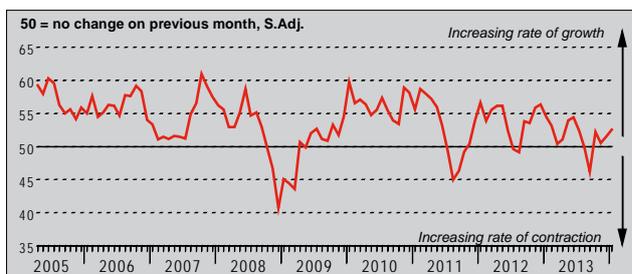
Q. Please compare the level of new orders received (India and export) this month with the situation one month ago.



Indian manufacturers indicated that incoming new work rose for a third successive month in January. Although moderate, the overall rate of growth was the quickest since March 2013. Anecdotal evidence highlighted stronger demand from both domestic and export clients. Two of the three monitored market groups registered higher new orders, the exception being investment goods.

New Export Orders Index

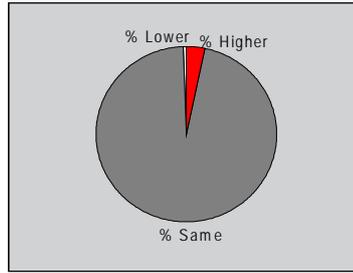
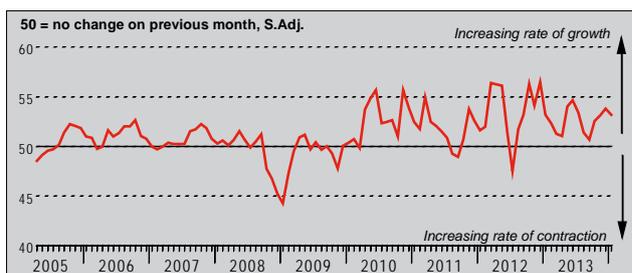
Q. Please compare the level of new export orders received this month with the situation of one month ago.



New export orders received by Indian manufacturers increased in January, taking the current sequence of growth to four months. Moreover, the pace of expansion accelerated to the fastest since June last year and was solid overall. According to respondents, demand from key export clients was stronger than at the end of 2013. All three broad areas of the manufacturing economy recorded higher foreign orders, with the quickest increase by far noted at consumer goods producers.

Backlogs of Work Index

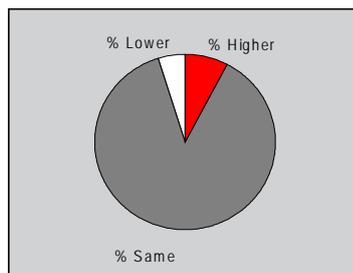
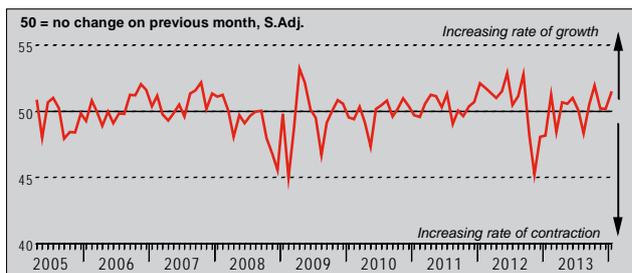
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Amid reports of new order growth, unfinished business rose in January. Despite easing since December, the rate of accumulation was solid and the seasonally adjusted Backlogs of Work Index posted above the long-run series average. Work-in-hand increased across all three sub-sectors covered by the survey, led by consumer goods producers.

Stocks of Finished Goods Index

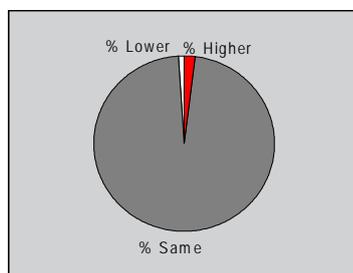
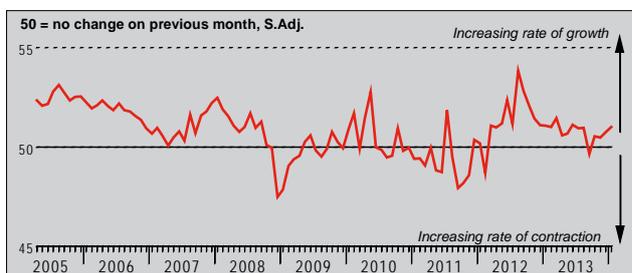
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Reflective of higher production volumes, holdings of finished goods increased in January. Although slight, the latest rise in post-production inventories was the fifth in as many months and the accumulation rate was above the series average. Growth of stocks of finished goods was again centred on the consumer goods sub-category.

Employment Index

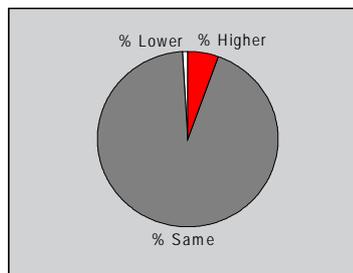
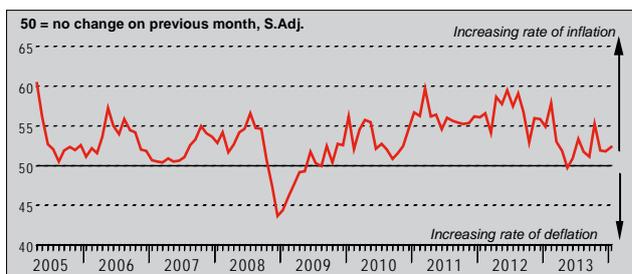
Q. Please compare the level of employment at your unit with the situation one month ago.



Manufacturing employment across India rose in January, marking a four-month sequence of job creation. The rate of expansion was slight, but the seasonally adjusted Employment Index posted broadly in line with the series long-run average (50.9). New business growth was often commented on by companies that reported higher staffing levels. For the second month running, all three market groups registered increased workforce numbers.

Output Prices Index

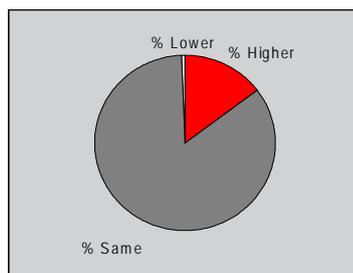
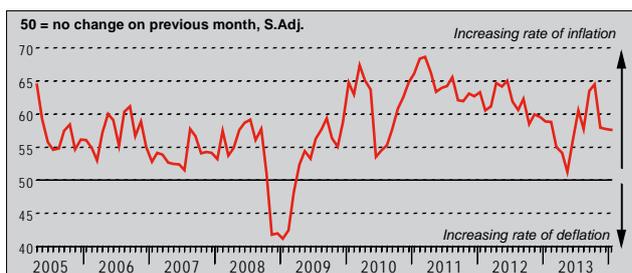
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Prices charged by Indian manufacturers rose further in January. Despite being the quickest in three months, the overall rate of charge inflation was moderate and weaker than the series average. Panellists reported attempts to pass on part of the increase in costs. Moderate rises in output prices were recorded in all three broad areas of the manufacturing economy.

Input Prices Index

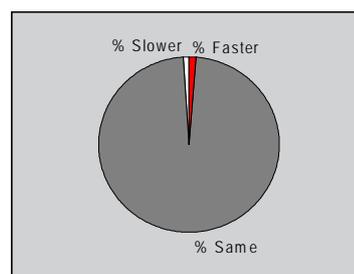
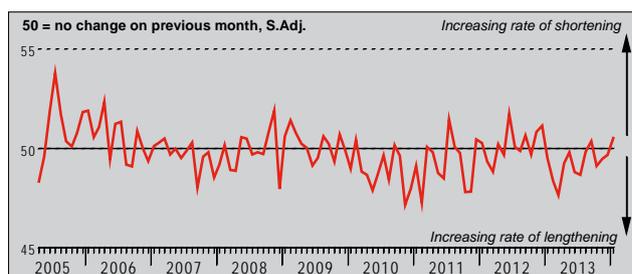
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



As has been observed in each month since April 2009, prices paid for purchases by Indian manufacturing companies increased in January. The rate of cost inflation was little-changed from that seen in December, and was robust overall. There was evidence of higher prices paid for metals, chemicals and energy. Almost 15% of survey participants reported rising input costs, compared with less than 1% that noted a reduction.

Suppliers' Delivery Times Index

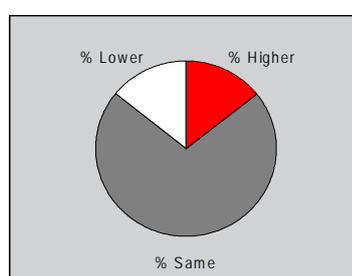
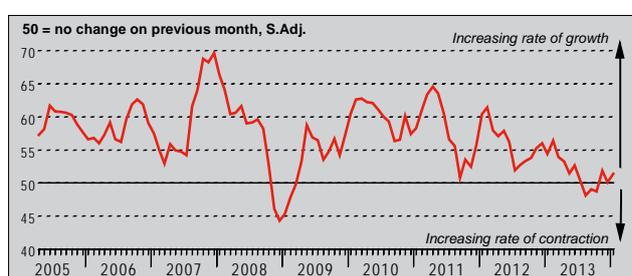
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Vendor performance in the Indian manufacturing sector improved in January, thereby ending a three-month period of lengthening lead times. That said, only 1% of panellists indicated shorter suppliers' delivery times, while the vast majority (almost 98%) noted no change. Evidence from survey respondents highlighted a greater availability of raw materials at vendors' units.

Quantity of Purchases Index

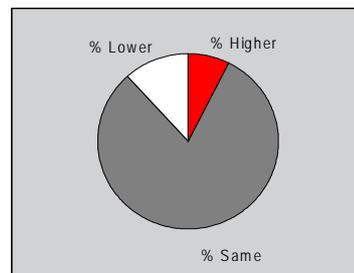
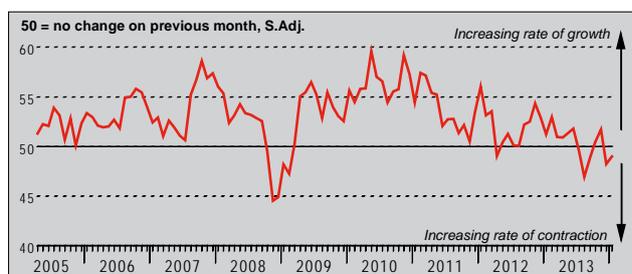
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



January data indicated that purchasing activity in the Indian manufacturing economy rose for a third consecutive month. The rate of expansion was, however, only slight and much weaker than the long-run series average. Those companies reporting a higher quantity of items purchased reasoned that this was due to new contract wins. Growth of buying activity was largely centred on the consumer goods sub-sector.

Stocks of Purchases Index

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



Indian manufacturers reported lower stocks of raw materials and semi-manufactured goods in January. However, the rate of decline was slight and slower than in December. Pre-production inventories were depleted by producers of both intermediate and capital goods, while an accumulation was registered in the consumer goods sub-category.

Notes on the Data and Method of Presentation

The *Purchasing Managers' Index™ (PMI™)* 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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