

# HSBC India Manufacturing PMI™

## Business conditions improve for second month running in December

### Summary

The Indian manufacturing sector ended 2013 on an encouraging footing. Operating conditions improved for the second successive month in December, as both output and new orders increased. Consequently, firms raised their workforce numbers further in the latest month.

Down slightly from 51.3 in November to 50.7 in December, the seasonally adjusted HSBC India Manufacturing Purchasing Managers' Index™ (PMI™) signalled a second consecutive monthly improvement in business conditions. Although weaker than its long-run trend, the PMI average for the final quarter of the year (50.5) was greater than that seen for Q3 (49.4).

Manufacturing production rose for the second month running, but at only a marginal rate. Supporting the latest increase in total output was a further gain in incoming new business. Sector data indicated that the overall expansion in production volumes was largely centred on the consumer goods sub-sector.

New orders placed at Indian manufacturers rose in December, albeit marginally. Panellists linked higher levels of new work to improved domestic and overseas demand. However, the latest increase was mainly focused in the consumer goods category. Export order growth was registered for the third consecutive month. Although quickening since November, the overall rate of expansion was modest and below the series average.

Indian manufacturing employment rose in December, stretching the current period of job creation to three months. However, the rate of growth was only marginal. All three broad areas of the goods-producing sector registered higher staffing levels.

Price indicators moved lower in December. Average purchasing costs increased at the slowest pace for four months, but the overall rate of inflation remained robust. Most of the increase was attributed by surveyed companies to higher prices paid for raw materials such as metals, chemicals and textiles. Output prices rose for the seventh month in a row, although competition between manufacturers meant that the rate of increase was historically muted.

December data pointed to a further, albeit fractional, rise in purchasing activity. Consumer goods was the only sub-category of the manufacturing economy to post higher input buying. The overall increase in quantity of purchases was insufficient to prevent a drop in holdings of raw materials. Pre-production inventories fell for the first time since September, but the rate of

contraction was moderate. Conversely, stocks of finished goods rose in December. The overall increase was, however, unchanged from the fractional rate seen in November. Finally, backlogs of work rose again during the latest survey period, with the rate of accumulation climbing to a six-month high. Anecdotal evidence highlighted raw material shortages at vendors and powercuts.

### Comment

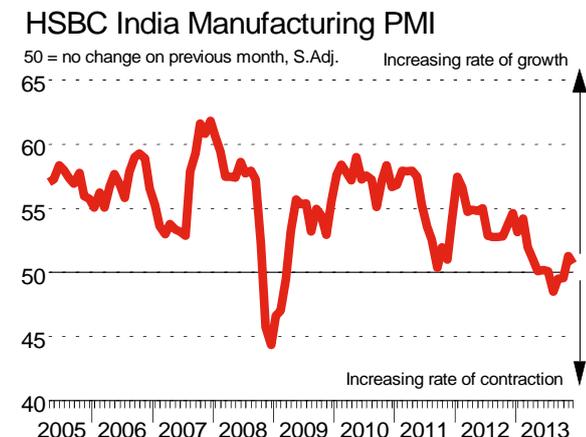
Commenting on the India Manufacturing PMI™ survey, Leif Eskesen, Chief Economist for India & ASEAN at HSBC said:

*"Manufacturing activity decelerated slightly in December as a slowdown in domestic order flows led to slower output growth. By sector, however, the consumer goods segment held up. Despite the deceleration in order flows, backlogs of work picked up due to raw material shortages and power outages. Inflation gauges were broadly steady, although they declined marginally. Today's numbers show that growth remains moderate and struggles to take off due to lingering structural constraints. Even so, inflation pressures remain firm and are proving sticky. RBI may yet again have to flex its muscles and tighten monetary policy to bring down the elevated level of inflation."*

### Key points

- PMI drops slightly from 51.3 in November to 50.7
- Output increases as new orders expand
- Job creation sustained

### Historical Overview



Sources: Markit, HSBC.

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## **Notes to Editors:**

The HSBC India Manufacturing PMI is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 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*<sup>™</sup> (*PMI*<sup>™</sup>) 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. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact [economics@markit.com](mailto:economics@markit.com).

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