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Nikkei India Manufacturing PMI®

Marked rise in sales underpins production growth

Key points:

- Second-fastest upturn in order books in 2018
- Output expands at solid, albeit softer, pace
- Weakest rise in input costs for 34 months leads to stable charges

Data collected December 5-17

The health of India's manufacturing economy improved further at the end of the year, as companies continued to scale up production and employment in response to strong inflows of new business. December data also brought news of a notable slowdown in input cost inflation, to a 34-month low, which translated into broadly no change in factory gate charges.

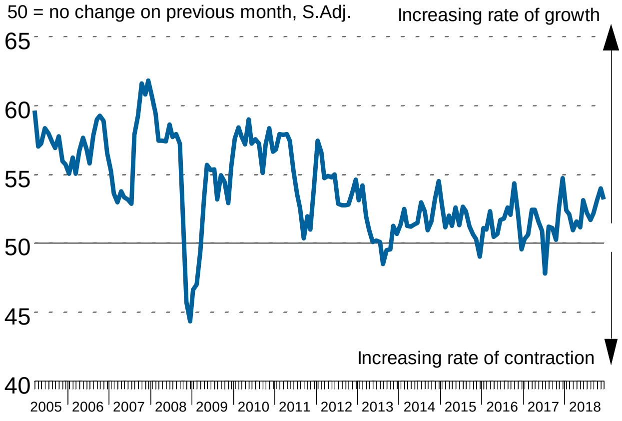
Posting 53.2 in December, from 54.0 in November, the **Nikkei India Manufacturing Purchasing Managers' Index® (PMI®)** was consistent with a further improvement in operating conditions across the sector. The latest figure was the second-greatest in 2018 and contributed to highest quarterly average since Q3 FY 2012.

Growth of new work remained robust at the end of the quarter, with the upturn the second-quickest since December 2017. Companies that experienced greater inflows of new orders mentioned expanded client bases, stronger demand and fruitful advertising. International markets contributed to sales growth, with exports rising for the fourteenth month in a row.

Despite easing from November, the rise in production was among the quickest seen in 2018. Firms suggested that greater sales and technological progress supported the increase in output. Growth was curtailed by competitive pressures, labour issues and challenging public policies.

Employment continued to expand in December, but companies still signalled increased volumes of work-in-hand. The upturn in jobs was the slowest in four months, while backlogs were accumulated to the quickest extent since May.

Holdings of manufactured goods in India decreased again at the end of the year as firms sought to fulfil orders from stocks. The pace of depletion was solid and the joint-fastest in three months.



Sources: Nikkei, IHS Markit.

In contrast, input inventories rose for the tenth successive month.

The key factor enabling companies to rebuild their input stocks was another increase in quantities of purchases. The upturn matched the solid pace noted in November, to be the joint-quickest in 11 months. At the same time, suppliers' delivery times were broadly unchanged in December.

Goods producers reported that higher prices for materials, especially steel, resulted in another increase in overall cost burdens. That said, the rate of inflation eased to a 34-month low. The rise was marginal and much softer than seen on average over the survey history.

Easing cost inflationary pressures translated into unchanged selling prices, thereby ending a 16-month sequence of charge inflation. Efforts to boost sales were also reported as a reason preventing firms from hiking their fees.

Looking ahead, companies predicted that marketing initiatives, capacity expansions and forecasts of further improvements in demand will boost output in the coming year. That said, the level of confidence moderated from mid-quarter and was subdued in the context of historical survey data.

Continues…

Comment:

Commenting on the Indian Manufacturing PMI survey data, **Pollyanna De Lima**, Principal Economist at IHS Markit and author of the report, said**:**

“The Indian Manufacturing PMI indicated that the sector ended 2018 on a high, with growth stronger than seen at the start of the year. Output continued to rise strongly, in line with a robust upswing in sales. Companies benefited from rising international demand for Indian goods, as export orders expanded for the fourteenth straight month.

“It’s particularly encouraging to see the quarterly PMI average climb to its highest mark since Q3 FY 2012, suggesting that the sector made a robust contribution to GDP.

“Spare capacity was evident, with vendors’ delivery times unchanged and input cost inflation softening. These signs of easing inflationary pressures indicate that we’re likely to see the RBI adopt an accommodative monetary policy stance in early 2019.

“Meanwhile, job creation weakened, with companies perhaps cautious about making hiring decisions ahead of next year’s elections and a less upbeat optimism towards the outlook.”

-Ends-

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PMI® By IHS Markit

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For further information, please contact:

IHS Markit (About PMI and its comment)
Pollyanna De Lima, Principal Economist
Telephone 44 1491 461 075
Email pollyanna.delima@ihsmarkit.com

Joanna Vickers, Corporate Communications
Telephone 44 207 260 2234
E-mail joanna.vickers@ihsmarkit.com

Bernard Aw, Principal Economist
Telephone 65 6922 4226
E-mail bernard.aw@ihsmarkit.com

Nikkei inc. (About Nikkei)
Ken Chiba, Deputy General Manager, Public Relations Office
Atsushi Kubota, Manager, Public Relations Office
Telephone 81-3-6256-7115
Email koho@nex.nikkei.co.jp

Notes to Editors:

The Nikkei India Manufacturing *PMI*® is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 400 industrial companies. The panel is stratified by GDP and company workforce size. The manufacturing sector is divided into the following 8 broad categories: Basic Metals, Chemicals & Plastics, Electrical & Optical, Food & Drink, Mechanical Engineering, Textiles & Clothing, Timber & Paper and Transport.

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'. 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.

The Nikkei India Manufacturing *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.
IHS 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 IHS Markit. Please contact economics@ihsmarkit.com.

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