Robust gains in new work boost production growth in October

Key findings

Output and new orders expand at fastest rates in seven months

Quantities of purchases up sharply in October

Strongest increase in input costs since early-2014

Manufacturing sector growth in India gained steam in October as companies scaled up production in line with a substantial upturn in new work intakes. Firms stepped up input purchasing amid stock-building efforts and in anticipation of further improvements in demand, while business optimism hit a six-month high. Panellists continued to report rising prices for several materials and transportation, with overall input costs increasing at the sharpest rate since February 2014. Subsequently, selling charges were lifted again.

At 55.9 in October, the seasonally adjusted IHS Markit India Manufacturing Purchasing Managers’ Index® (PMI®) was in expansion territory for the fourth month in a row. Moreover, rising from 53.7 in September, the latest figure pointed to the strongest improvement in overall operating conditions since February.

Amid reports of improved market confidence, rising requirements among clients and successful marketing, new orders continued to expand in October. The upturn was sharp and the fastest in seven months. Similarly, factory output increased at a sharp pace that was the strongest since March.

While strong growth of both sales and production were noted in each of the three broad areas of the manufacturing sector, it was in intermediate goods that the sharpest rates of expansion were recorded.

In addition to reporting a substantial increase in total new orders, Indian companies observed a notable pick-up in international demand for their goods. New export work rose at a solid pace that was the quickest in three months.

With the aim to proceed with production schedules as planned, manufacturers bought additional inputs in October. Quantities of purchases increased at a pace last seen in March.

Commenting on the latest survey results, Pollyanna De Lima, Economics Associate Director at IHS Markit, said:

“Manufacturing sector growth in India continued to gather momentum, with October data showing notably quicker expansions in new orders, production and input purchasing.

“With companies gearing up for further improvements in demand by building up their stocks, it looks like manufacturing activity will continue to expand throughout the third quarter of fiscal year 2021/22 should the pandemic remain under control. Upbeat business confidence and projects in the pipeline should also support production in the coming months.

“Of concern, input cost inflation accelerated substantially in October — to a near eight-year high — as strong global demand for scarce raw materials continued to push up prices for these items. Some manufacturers hiked their fees in response, but for now the overall rate of charge inflation was moderate.

“Despite the overall improvement in operating conditions, jobs failed to increase. This was often linked to sufficient capacity to deal with current workloads and government norms surrounding shift work.”
of purchases rose at a robust rate that was the fastest since April. At the same time, companies noted a further increase in supplier prices. The overall rate of input cost inflation surged to a 92-month high. Anecdotal evidence highlighted higher chemical, fabric, metal, electronic component, oil, plastic and transportation costs.

Some firms opted to pass part of the additional cost burden on to their clients by lifting output charges. However, with the vast majority of manufacturers leaving their fees unchanged, the overall rate of inflation was moderate.

Despite the notable upturn in new orders, Indian manufacturers were able to keep on top of their workloads, as signalled by another reduction in backlogs. The pace of depletion was only fractional, however.

This lack of pressure on capacity, besides government guidelines surrounding shift work, meant that employment continued to decline. That said, the rate of job shedding was marginal.

Predictions that business conditions will improve further as the pandemic retreats boosted confidence. Firms also intend to develop new products, invest in marketing and focus on customer relations to support growth in the year ahead. The overall degree of optimism strengthened to a six-month high.

Finally, stocks of purchases rose at a near-record rate amid strong input buying growth. Conversely, post-production inventories fell sharply in October.

Survey methodology
The IHS Markit India Manufacturing PMI® is compiled by IHS Markit from responses to questionnaires sent to purchasing managers in a panel of around 400 manufacturers. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of ‘higher’ responses and half the percentage of ‘unchanged’ responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Purchasing Managers’ Index® (PMI). The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers’ Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers’ Delivery Times Index is inverted so that it moves in a comparable direction to the other indices.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

Survey dates and history
Data were collected 12-25 October 2021.
Survey data were first collected March 2005.

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