

IHS Markit India Manufacturing PMI®

Output growth reinstated amid rebound in factory orders

Key findings

Production lines revived by recovery in order books

Growth of new export orders restored in July

Employment increases for first time in 16 months

Data collected 12-26 July

Operating conditions in India improved during July, after growth was halted by the escalation of the pandemic in June. Output, new orders, exports, quantity of purchases and input stocks all returned to expansion territory, while a marginal increase in employment ended a 15-month sequence of job shedding.

Meanwhile, there was softer but still sharp increase in input costs. Output charges rose only slightly, however, as several companies absorbed additional cost burdens amid efforts to boost sales.

After slipping into contraction for the first time in 11 months during June, the seasonally adjusted IHS Markit India Manufacturing Purchasing Managers' Index® (PMI®) moved back above the critical 50.0 threshold in July. The headline figure was up from 48.1 to 55.3, pointing to the strongest rate of growth in three months.

Factory orders rose amid reports of improved demand and the easing of some local COVID-19 restrictions. The upturn was sharp and compared with a marked decline in June. Strengthening international demand contributed to the uptick in total order books. New export orders expanded markedly in July, following a moderate contraction in June.

Rising sales supported a recovery in output, which increased in July after falling for the first time in 11 months during June. The rate of production growth was sharp and outpaced its long-run average.

In tandem with sales growth and rising production requirements, manufacturers hired extra workers in July. The increase in employment was mild, but ended a 15-month sequence of job shedding. Companies also purchased additional inputs for use in the production process. The overall rate of buying activity

India Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

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

"It's encouraging to see the Indian manufacturing industry recover from the blip seen in June. Output rose at a robust pace, with over one-third of companies noting a monthly expansion in production, amid a rebound in new business and the easing of some local COVID-19 restrictions. Should the pandemic continue to recede, we expect a 9.7% annual increase in industrial production for calendar year 2021.

"The PMI also brought the positive news of job creation in the manufacturing sector. Although marginal, the rise in employment was the first since the onset of COVID-19. With firms' cost burdens continuing to rise, however, and signs of spare capacity still evident, it's too early to say that such trend will be sustained in coming months.

"Policymakers will welcome evidence that inflationary pressures are starting to abate. Firms signalled the slowest increases in input costs and output charges for seven months. Hence, we expect the RBI to keep interest rates unchanged in its August meeting as it continues to support growth."

growth was solid by historical standards.

In turn, goods producers saw an increase in their stocks of purchases during July. The accumulation was marked and followed a decline in June.

Once again, raw material scarcity was cited as a key factor causing longer delivery times among suppliers. That said, vendor performance worsened only slightly and to the same extent as in June.

With demand for inputs outstripping supply, there was another substantial increase in purchasing prices. The rate of cost inflation remained above its long-run average, but eased to a seven-month low.

Output charges also increased at a slower rate, the weakest in 2021 so far. But here the rate of inflation was slight and below its long-run average.

Elsewhere, stocks of finished goods continued to decline as firms attempted to deliver finished products in a timely manner. Despite being solid, the rate of depletion eased from June.

July data indicated spare capacity among manufacturers as outstanding business volumes decreased further. The rate of backlog depletion was only slight, however.

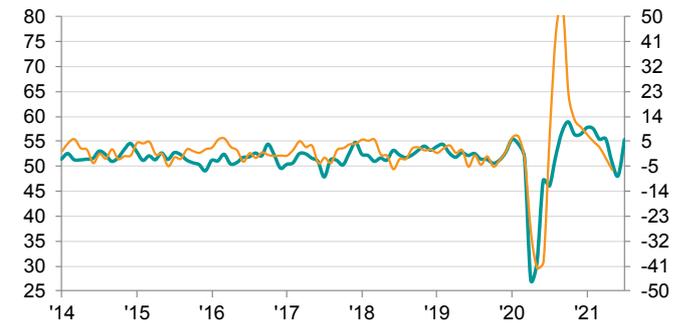
Indian firms foresee output growth in the year ahead, with the end of the pandemic and rising sales expected to support the upturn. The overall level of positive sentiment rose from June's 11-month low, but remained historically subdued as some companies were concerned about the path of the pandemic.

PMI Output Index

sa, >50 = growth since previous month

Manufacturing production

3m/3m % change



Sources: IHS Markit, CSO.

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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 12-26 July 2021.

Survey data were first collected March 2005.

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