

IHS Markit India Manufacturing PMI®

Indian manufacturing sector heads towards stagnation in May

Key findings

PMI slides from 55.5 to 50.8 in May

Weakest increases in sales and output in ten months

Job shedding accelerates

Data collected 12-25 May

Although the health of the Indian manufacturing sector continued to improve in May, the latest results showed a significant loss of growth momentum. Due to the intensification of the COVID-19 crisis and its detrimental impact on demand, companies observed the slowest rises in new work and output for ten months. There was also a substantial slowdown in growth of input purchasing and another round of job shedding. Concerns surrounding the pandemic restricted business confidence towards the year-ahead outlook for production.

At 50.8 in May, down from 55.5 in April, the seasonally adjusted IHS Markit India Manufacturing Purchasing Managers' Index® (PMI®) moved closer to the no-change mark of 50.0. The latest figure pointed to a marginal improvement in business conditions that was the weakest in the current ten-month sequence of expansion.

New orders, the largest sub-component of the headline figure, increased at a marginal pace that was the slowest since the current stretch of expansion started in August 2020. According to panel members, demand was suppressed by the COVID-19 crisis.

Firms scaled up production volumes during May, but the pace of expansion was modest in the context of historical data. In fact, the rise was the weakest in the current ten-month period of growth. Anecdotal evidence indicated that the upturn was curbed by the escalation of the pandemic and difficulties in securing raw materials.

Although new export orders also increased at a softer rate, the upturn was solid and outpaced the long-run series trend.

COVID-19 restrictions and a lack of new work led companies to reduce their payroll numbers further. The decline in employment

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:

"The Indian manufacturing sector is showing increasing signs of strain as the COVID-19 crisis intensifies. Key gauges of current sales, production and input buying weakened noticeably in May and pointed to the slowest rates of increase in ten months. In fact, all indices were down from April.

"Amid a lack of new work, goods producers reduced headcounts again, with the rate of job shedding quickening in May.

"That said, the detrimental impacts of the pandemic and associated restrictions seen in the manufacturing sector are considerably less severe than during the first lockdown when unprecedented contractions had been recorded.

"Growth projections were revised lower, as firms became more worried about the escalation of the pandemic and local restrictions. The overall degree of optimism towards the year-ahead outlook for output was at a ten-month low, a factor which could hamper business investment and cause further job losses."

was slight, but accelerated from April.

Companies that were successful in securing new work during May purchased additional materials for use in the production process. However, others refrained from lifting input buying due to fewer output needs and the COVID-19 crisis. Overall buying levels rose at the slowest pace in ten months.

May data continued to signal lengthening supplier delivery times, with vendor performance worsening for the third straight month. The deterioration was linked to global shortages of raw materials and the COVID-19 pandemic.

In turn, raw material scarcity exerted further upward pressure on input costs. The rate of inflation eased to a four-month low, but remained sharp and above its long-run average. Panellists reported higher aluminium, chemical, copper, plastic and steel prices.

Amid reports of ongoing efforts to protect margins from cost increases, firms lifted their selling prices again in May. The rate of charge inflation was solid, but softened from April.

On the stocks front, there was a slight rise in input holdings and a solid contraction in post-production inventories.

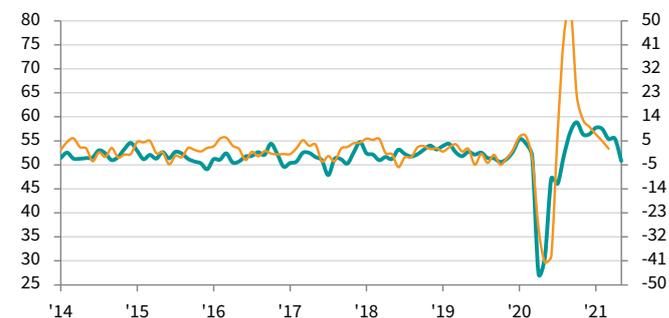
Manufacturers became increasingly concerned about the negative impacts of the pandemic on operations. Companies foresee output growth in the year ahead, but the overall level of positive sentiment dipped to a ten-month low.

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 12-25 May 2021.

Survey data were first collected March 2005.

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Purchasing Managers' Index® (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. ihsmarkit.com/products/pmi.html.