

IHS Markit India Manufacturing PMI®

Manufacturing sector growth constrained by COVID-19 and surging costs

Key findings

PMI slides to 52.3 in August

Factory orders and production rise at softer rates

Input costs continue to increase sharply

Data collected 12-24 August

Growth of manufacturing production in India was curbed in August by the pandemic and rising input costs. A softer upturn in sales led companies to pause their hiring efforts, with business confidence dampened by concerns surrounding the damaging impact of COVID-19 on demand and firms' finances.

However, with order books still expanding and businesses retaining optimistic growth projections, stock-building efforts continued and additional materials were bought. On the price front, a softer but still sharp rise in input costs underpinned a quicker increase in charges.

Registering 52.3 in August, the seasonally adjusted IHS Markit India Manufacturing Purchasing Managers' Index® (PMI®) pointed to an improvement in overall operating conditions for the second straight month. That said, the headline figure was down from 55.3 in July, indicating a softer rate of growth that was subdued in the context of historical survey data.

Manufacturing production increased for the second straight month in August amid reports of improved sales and demand. However, growth was curbed by the pandemic and elevated price pressures. The overall rate of expansion was modest and below its long-run average.

New orders also rose for the second straight month, and at a softer pace. Some firms suggested that favourable market conditions and fruitful advertising boosted demand for their goods. Others noted that sales fell due to the pandemic.

August data pointed to back-to-back increases in new export orders, but here too growth lost momentum. The pace of expansion was only marginal.

Indian manufacturers signalled another monthly rise in cost burdens, thereby taking the current stretch of inflation to 13

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:

"August saw a continuation of the Indian manufacturing sector recovery, but growth lost momentum as demand showed some signs of weakness due to the pandemic.

Yet, factory orders and output rose across the consumer, intermediate and investment goods categories.

"The 12-month outlook for production remained positive, though confidence faded amid worries concerning the lasting scars of the pandemic and the adverse impact of rising costs on companies' finances parallel to a lack of pricing power.

"Charges levied by manufacturers rose as some firms shared part of their additional cost burdens with clients, although to a lesser degree than selling prices. Input prices increased sharply, due to strong competition for scarce raw materials and transportation issues.

"Uncertainty regarding growth prospects, spare capacity and efforts to keep a lid on expenses led to a hiring freeze in August, following the first upturn in employment for 16 months in July."

months. The rate of increase softened, but remained elevated by historical standards. Cost pressures were linked by survey members to raw material scarcity and transportation problems.

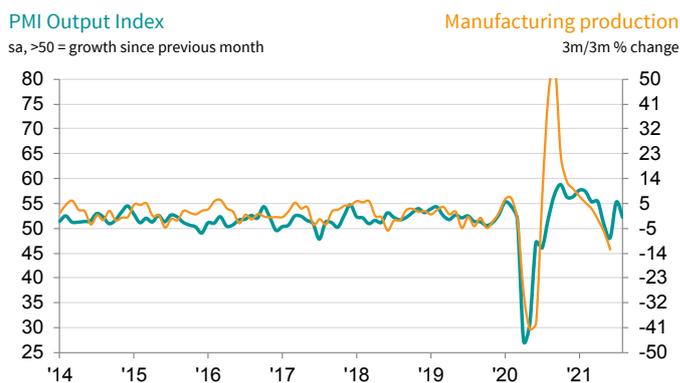
Manufactures passed part of the additional cost burden on to clients by lifting their fees. The rate of inflation quickened to a three-month high, but was below that seen for input costs.

Amid reports of efforts to immediately fulfil new work in order to receive payments quickly, companies worked through their pending orders in August. Backlogs decreased at a slight pace that was broadly similar to those seen in the prior three months.

The speedy dispatch of purchased goods also caused a fall in holdings of finished products. The rate of depletion was marked, despite easing to the slowest in three months.

Conversely, pre-production inventories continued to rise as firms purchased additional materials in tandem with greater output needs. Both buying levels and input holdings increased at softer rates, however, as raw material shortages among suppliers and a lack of container availability resulted in a further lengthening of average lead times.

Employment levels were broadly stagnant in August as companies reportedly had sufficient workforces to cope with current requirements and confidence remained subdued. Although output was predicted to increase in the year ahead, the overall degree of optimism weakened from July.



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 12-24 August 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.