

Nikkei India Manufacturing PMI[®]

Stronger upturn in order books spurs output and employment growth

Key points:

- New orders and production increase at quickest rates in four months
- Job creation at ten-month high
- Joint-highest PMI reading in year-to-date

Data collected October 12-25

Manufacturing sector growth in India gathered momentum in October as firms responded to stronger order inflows by scaling up production, input purchasing and employment. Price gauges continued to point to upward inflationary pressures, but were similar to September's readings. Inventory trends varied, with companies utilising stocks of finished goods to satisfy greater demand whilst rebuilding their input holdings.

Rising from 52.2 in September to 53.1 in October, the *Nikkei India Manufacturing Purchasing Managers' Index*[®] (PMI[®]) highlighted the joint-strongest upturn in the health of the sector in 2018 so far. Moreover, the current growth spell was stretched to 15 months.

Ongoing improvements in demand, coupled with technological advancements and favourable market conditions, prompted a stronger upswing in production. The rate of output growth was the second-highest registered in the year-to-date, with accelerations evident in the consumer, intermediate and investment goods sectors.

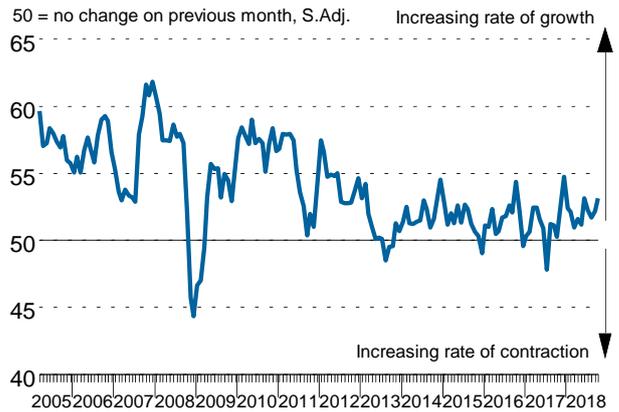
New orders increased solidly during October, which panellists attributed to successful advertising efforts, strengthening underlying demand and competitive price setting. The rise was the fastest since June.

Whereas growth of total new orders gathered pace, the upturn in export sales cooled at the start of the fourth quarter. The expansion was the weakest in three months and below the long-run series average.

Manufacturers stepped up hiring in October, with job creation the strongest since last December. In turn, businesses were able to lower their outstanding business volumes for the second straight month.

October data showed a fifth successive monthly rise in quantities of purchases. The expansion was broadly similar to the moderate pace noted in

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Sources: Nikkei, IHS Markit.

September. Anecdotal evidence suggested that ongoing growth of new work underpinned the increase in buying levels. At the same time, vendor performance was broadly unchanged.

Amid reports of higher prices for chemicals, energy and metals, average cost burdens increased further. The rate of inflation was marked and broadly in line with its long-run average. Some manufacturers passed part of the additional cost burden on to their clients by hiking their charges. That said, the rate of selling price inflation was mild in the context of historical survey data and much weaker than seen for costs.

Trends for stocks differed, with a fall in holdings of finished goods contrasting with accumulation of input inventories. The former was associated with the immediate dispatch of products to clients, while the latter was linked to the purchasing of additional materials amid higher demand.

Indian manufacturers were confident that output will be higher over the course of the next year, with sentiment underpinned by planned R&D investments and marketing initiatives. That said, optimism was stymied by concerns towards future market conditions. The overall level of positivity was at a 20-month low.

Comment:

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

“Manufacturing continued to make up for ground lost in August, with a robust and accelerated rise in new orders boosting production growth in October. Consumer, intermediate and investment goods output all increased at stronger rates.

“A combination of domestic and foreign orders fuelled the upturn in overall activity, although export orders displayed the slowest expansion since July whilst total new work rose at the sharpest pace since mid-year.

“Purchasing activity expanded further, impacting on suppliers’ delivery capabilities. Competition for some scarce raw materials also rose, causing further increases in input prices and weaker stock accumulation.

“The trend for employment was particularly encouraging, with job creation at a ten-month high. Firms sought to increase their competitive edge, with marketing activity and investment in research and development, which meant business sentiment remained positive. However, goods producers see challenges and uncertainties ahead, which in turn translated into the weakest degree of optimism seen in 20 months.”

-Ends-

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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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