June sees moderate increases in factory orders, employment and production

Key findings

- Softer upturn in sales underpins slower output growth
- Weaker increase in employment
- Subdued cost inflation enables firms to lower charges

The Indian manufacturing sector lost growth momentum in June, following an acceleration in May. A softer increase in new work intakes translated into slower rises in output and employment, while the upturn in quantities of purchases strengthened.

June data continued to show only a moderate increase in input costs, which in turn supported another round of selling prices discounting.

The IHS Markit India Manufacturing Purchasing Managers’ Index® (PMI®) was at 52.1 in June, down from May’s three-month high of 52.7 but still signalling an improvement in operating conditions across the sector. That said, the average PMI reading for the opening quarter of fiscal year 2019/20 was the lowest recorded since the second quarter of FY18.

Consumer goods was the key source of growth, where robust increases in sales, output and employment were registered. Modest expansions in production and new work were noted in the intermediate goods category, but here jobs stagnated. At the same time, operating conditions in the capital goods sector were broadly unchanged.

Aggregate manufacturing production increased in June, as has been the case for nearly two years. Growth was associated with the securing of new work and technological progress. However, the overall pace of expansion eased from May and was moderate.

Underpinning the slowdown in output growth was a softer rise in new work intakes. The upturn in total sales was the second-slowest in nine months, ahead of that noted in April. Among those firms that secured new business, there were mentions of successful advertising and a higher clientele.

Growth of new export orders showed signs of weakness, easing...
to the second-slowest in over a year. Consumer goods exports rose markedly, while marginal increases were noted in the intermediate and capital goods segments. The latter was the weakest link in June.

Firms’ willingness to spend continued in June, with additional staff being hired and further raw materials purchased. While there was a slowdown in job creation, the upturn in input buying picked up to a four-month high.

Suppliers comfortably accommodated for the uptick in input buying growth, as signalled by an overall reduction in delivery times.

Subsequently, input stocks rose further. Furthermore, the rate of accumulation was the quickest in over two years. On the other hand, there was another decline in inventories of finished goods.

The recent trend of only modest increases in input costs was stretched to June. This, coupled with efforts to boost demand, led producers to offer discounts for their goods.

Manufacturers remained upbeat about growth prospects in June, with marketing initiatives, stable political conditions and forecasts of a pick-up in demand underpinning positive sentiment. However, the degree of optimism weakened slightly from that recorded in May.

Contact

Pollyanna de Lima
Principal Economist
IHS Markit
T: +61 2 9650 8127
pollyanna.delima@ihsmarkit.com

Bernard Aw
Principal Economist
IHS Markit
T: +65 6922 4226
bernard.aw@ihsmarkit.com

Joanna Vickers
Corporate Communications
IHS Markit
T: +65 6922 4226
joanna.vickers@ihsmarkit.com

Methodology

The IHS Markit India Manufacturing PMI® is compiled by IHS Markit from responses to monthly 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 further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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