

## IHS Markit India Manufacturing PMI®

# India's manufacturing sector heads towards stagnation in October

### Key findings

New business increases at weakest rate in two years...

...leading to softer and only marginal upturn in production

Input buying declines for third month running

The cooling of manufacturing sector conditions in India continued in October, with both factory orders and production rising at the weakest rates for two years. Subsequently, job creation softened to a six-month low, while companies were reluctant to hold excess stock and lowered input buying in response. Meanwhile, business confidence slipped to its lowest level in over two-and-a-half years. In another sign of subdued growth conditions, input costs declined for the first time in over four years.

The headline seasonally adjusted IHS Markit India Manufacturing PMI® fell from 51.4 in September to a two-year low of 50.6 in October, highlighting only a marginal improvement in the health of the manufacturing industry. Growth was restored in capital goods and softened in the consumer goods category, while a quicker contraction was registered at intermediate goods makers.

Although sales increased for the twenty-fourth consecutive month, the upturn was the slowest over this period. Growth at firms that were able to secure new work was hampered by weak demand at other companies.

Similarly, output expanded at the slowest rate in two years. According to panellists that raised production, this reflected new business gains. Companies that signalled lower output mentioned competitive pressures and subdued market demand. New export orders rose modestly, but at a quicker pace than in September, suggesting that the domestic market was the key source of weakness.

Challenging market conditions, coupled with delayed client payment, dampened business confidence in October. Manufacturers were at their least upbeat towards the 12-month outlook for production since February 2017.

As has been the case since August, quantities of purchases declined in October. Anecdotal evidence highlighted weak sales

India Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

### Comment

Commenting on the latest survey results, Pollyanna de Lima, Principal Economist at IHS Markit, said:

"PMI data for October showed a continuation of manufacturing sector weakness in India, with sales growth softening to the slowest in two years.

"Weakening demand had a domino effect in the manufacturing industry, knocking down rates of increase in production, employment and business sentiment. With quantities of purchases contracting for the third month in a row, input costs fell for the first time in over four years during October.

"Following five successive cuts to India's benchmark rate, and an apparent lag in how quickly this feeds through to consumers, the impending lowering of commercial lending rates could potentially revive private consumption and help to shift growth higher as we approach the year end.

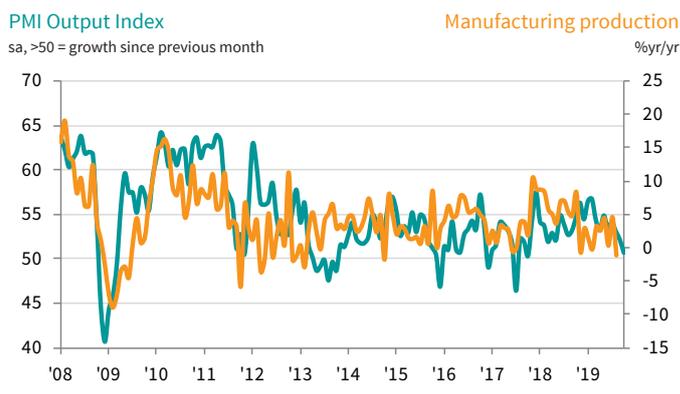
"Goods producers may then be encouraged to resume investments and create jobs, which combined with cuts to corporate taxes could bode well for the outlook."

as the main reason for the reduction in input buying. Lower demand for raw materials and semi-finished items led to a fall in overall cost burdens, the first in over four years. However, the decrease in input costs was fractional overall. Conversely, selling prices continued to increase in October. Although slight, the rate of charge inflation was at a seven-month high. Both pre- and post-production inventories decreased in October. The fall in the latter was sharper and the quickest in 16 months.

Goods producers continued to signal higher payroll numbers in October, stretching the current period of job creation to 19 months. That said, the upturn in employment was the second-weakest over this period, ahead of that seen in April. A number of survey members indicated that current payroll numbers were sufficient to deal with existing workloads.

Amid reports of delays in the receipt of payment from clients, unfinished business increased further in October. The rise in backlogs was the fastest since March, albeit marginal overall.

As for supply chains, there was a marginal increase in lead times for inputs. However, the deterioration in vendor performance was similar to the fractional pace recorded in September.



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](mailto:economics@ihsmarkit.com).

### Survey dates and history

October 2019 data were collected 9-25 October 2019.

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. To learn more go to [ihsmarkit.com/products/pmi.html](https://ihsmarkit.com/products/pmi.html).