

IHS Markit India Manufacturing PMI®

Escalation of COVID-19 crisis pushes manufacturing sector into reverse gear

Key findings

PMI in contraction territory for first time in 11 months

Renewed declines in factory orders and production

Buying levels fall at one of the fastest rates on record

Data collected 11-24 June

India's manufacturing industry fell back into decline during June, as the intensification of the pandemic and strict containment measures negatively impacted on demand. The latest results highlighted renewed contractions in factory orders, production, exports and quantities of purchases. With business optimism fading over the month, job shedding continued.

Registering 48.1 in June (May: 50.8), the seasonally adjusted IHS Markit India Manufacturing Purchasing Managers' Index® (PMI®) was below the critical no-change mark of 50.0 for the first time since July 2020. The latest reading pointed to a renewed deterioration in the health of the sector that was, however, moderate.

The PMI averaged 51.5 in the opening quarter of fiscal year 2021/22, the lowest three-month figure since the same period one year ago.

The stretch of new order growth that started in August 2020 came to an end in June, with firms linking the deterioration in demand to the pandemic. Despite being solid, the pace of contraction was much softer than those registered at the onset of COVID-19 last year.

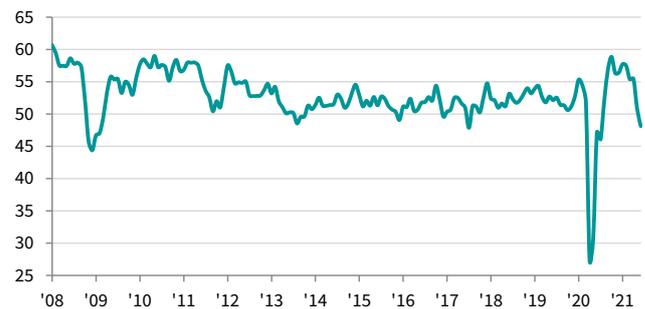
COVID-19 restrictions also curtailed international demand for Indian goods. New export orders decreased for the first time in ten months, albeit modestly.

Falling new orders, business closures and the COVID-19 crisis triggered a reduction in output among Indian manufacturers. The decline was moderate relative to those seen in the first half of 2020, but ended a ten-month sequence of growth.

Demand weakness and a reduction in production requirements led firms to restrict input purchasing in June. Buying levels fell at a marked pace that was among the fastest seen since data

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 intensification of the COVID-19 crisis in India had a detrimental impact on the manufacturing economy. Growth of new orders, production, exports and input purchasing was interrupted in June as containment measures aimed at bringing the pandemic under control restrained demand. In all cases, however, rates of contraction were softer than during the first lockdown.

"Companies became increasingly worried about when the pandemic will end, which resulted in downward revisions to output growth projections. As a result of subdued optimism, jobs were shed again in June.

"The rate of input cost inflation was stable in June, matching that recorded in May and thereby remaining above its long-run average. Companies again linked increases to global shortages of raw materials.

"Out of the three broad areas of the manufacturing sector monitored by the survey, capital goods was the worst-affected area in June. Output here declined at a steep rate due to a sharp fall in sales. The sector also saw the fastest contraction in buying levels and was the only to post job shedding."

collection started in March 2005.

Business confidence was dampened in June by uncertainty over when the pandemic can be brought under control. Companies were at their least optimistic for almost a year.

As a result, jobs continued to be shed midway through the year. The fall in employment was marginal, but took the current sequence of month-on-month contraction to 15 months.

Faced with fewer workloads, firms diverted resources towards the completion of pending work. Backlogs decreased for the second consecutive month in June.

June data pointed to marked declines in both pre- and post-production inventories. The former posted the first contraction in ten months.

Amid reports of raw material scarcity, transportation issues and COVID-19 restrictions, supplier performance worsened again in June. However, average lead times lengthened only slightly.

Input costs increased further in June, with firms reporting higher prices for chemicals, electronic components, energy, metals and plastics. The rate of inflation was, however, the joint-lowest in five months (equal to May).

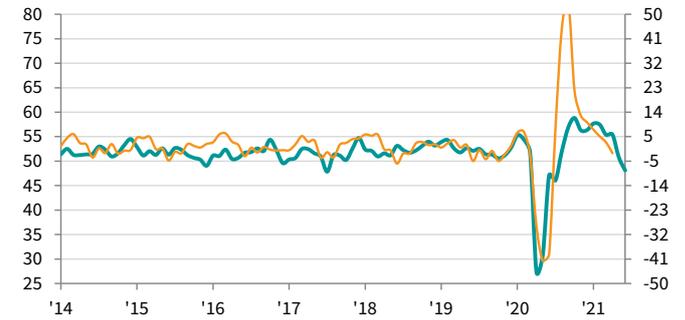
Additional cost burdens were again transferred on to clients, with goods producers hiking their fees for the tenth straight month. The rate of charge inflation was at a three-month low, however.

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 11-24 June 2021.

Survey data were first collected March 2005.

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