

Nikkei India Manufacturing PMI®

Operating conditions improve at a slower pace in August

Key points:

- Headline PMI index falls to 51.7
- Softer expansions of output and new orders
- Inflationary pressures ease further in August

Data collected August 24-28

August survey data indicated that operating conditions improved at the slowest pace since May, mainly reflecting slower gains in output and new orders. On the price front, input cost inflation eased further from June's multi-year high and registered below the series trend. Subsequently, firms raised their output charges at the slowest rate since April. Meanwhile, business optimism towards the 12-month outlook for output softened from July's three-month high.

The Nikkei India Manufacturing *Purchasing Managers' Index*® (PMI®) registered at 51.7 in August from 52.3 in July. The latest data pointed to a modest improvement in manufacturing conditions compared to July.

Output rose further in August, thereby extending the current period of expansion to 13 months. Strong underlying demand was the key factor behind the latest upturn, according to panellists. Although solid, the rate of expansion eased for the second successive month.

New orders placed at Indian manufacturers rose for the tenth month in succession during August. Where an increase was reported, firms commented on strong market demand. Despite being solid, the rate of growth softened from the preceding month.

Orders from abroad rose for the tenth consecutive month during August. Moreover, the rate of expansion was marked and accelerated to the strongest since February. Greater demand from international markets underpinned the latest rise in new export orders, according to panellists.

In response to sustained periods of expansion in output and new orders, firms were encouraged to raise their staffing levels during August. That said, job creation remained marginal and broadly similar to the previous survey period.

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Sources: Nikkei, IHS Markit.

Indian manufacturing companies raised their purchasing activity for the third month in succession during August. Panellists generally commented on greater inflows of new orders. However, the rate of expansion was modest and the weakest in this sequence. Subsequently, pre-production stocks rose at a marginal and softer pace compared to the preceding month. Meanwhile, post-production inventories were depleted at a marked rate in August.

On the price front, Indian manufacturing companies continued to face higher input costs during August. There were reports that currency weakness contributed to higher raw material costs. Although sharp, input cost inflation moderated to the weakest since May.

As part of ongoing efforts to protect margins, Indian manufacturers raised their own selling prices for the thirteenth consecutive month in August. That said, the latest rise was marginal and the slowest since April.

Indian manufacturing companies retained optimistic projections for output in the next 12 months. That said, the level of sentiment eased from July's three-month high and remained below the historical average.

Comment:

Commenting on the Indian Manufacturing PMI survey data, **Aashna Dodhia**, Economist at IHS Markit and author of the report, said:

“August data signalled a further loss of growth momentum across India’s manufacturing sector, reflecting slower gains in output and new orders. That said, reflective of strong demand conditions, the rates of expansion were solid. PMI data suggested that external demand for Indian goods was also robust, with new export orders rising at the fastest pace since February.”

“Following rises in domestic interest rates, manufacturing companies gained some breathing space as input cost inflation moderated to the weakest since May and further from June’s multi-year peak. That said, the rupee depreciation against the US dollar continued to place strong upward pressures on input prices.”

“Indian manufacturers retained positive projections for output over the next 12 months, but the level of sentiment eased in August. Indeed, some of the key headwinds facing the economy include high global oil prices, monetary policy tightening, and capital outflows from emerging markets.”

-Ends-

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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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