HSBC Purchasing Managers' Index™ Press Release

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compiled by markit

HSBC India Manufacturing PMI™

Manufacturing PMI drops to lowest level in five months during February

Summary

The health of India's manufacturing sector continued to improve in February, albeit at the weakest pace since last September. With output and new orders rising at softer rates, the PMI dropped further over the month. Moreover, companies lowered their workforce numbers.

The headline *HSBC India Purchasing Managers' Index™ (PMI™)* fell from 52.9 in the previous month to 51.2 in February, reaching a five-month low. All five components of the PMI contributed to a lower reading and weaker improvements in operating conditions were noted across the three monitored market groups.

Amid evidence of slower new order growth, manufacturing production in India expanded at a weaker rate during February. Dropping to its lowest level since September 2014, the seasonally adjusted Output Index was also below its long-run average. The recent slowdown was broad-based by sector, with softer increases recorded in the consumer, intermediate and investment goods sub-sectors.

Despite rising for the sixteenth month in succession, new orders expanded at a slower pace in February that was the weakest since last September. Panellists reported that growth of new work intakes was stymied by softer domestic demand. New export business, meanwhile, increased at a solid and stronger rate.

With total new order growth easing further, Indian manufacturers reduced their payroll numbers in February. Nonetheless, the rate of job cuts was slight overall, with the vast majority of survey participants indicating no change in employment levels since January. Sector data indicated that employee headcounts were reduced across the three broad areas of the manufacturing sector.

Prices paid for inputs by goods producers in India decreased for the first time since March 2009, with declines recorded in the intermediate and investment goods sectors. The rate of decrease was, however, only slight. Nonetheless, factory gate charges were raised further. The rate of inflation was fractional overall and the weakest in five months, amid reports of discounting in order to secure new business.

February data indicated that pre-production stocks rose, thereby stretching the current period of growth to nine months. Having eased for the second consecutive month, the rate of inventory building was modest overall. Anecdotal evidence suggested that the slower increase in stocks of purchases reflected weaker input buying.

Meanwhile, backlogs of work rose further in the latest month. That said, the pace of accumulation was moderate and the slowest since last November. Vendor performance improved for the second successive month and to a greater extent than seen in January.

Comment

Commenting on the India Manufacturing PMI™ survey, Pollyanna De Lima, Economist at Markit said:

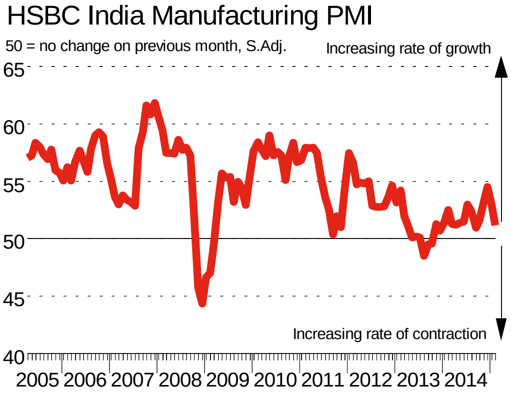
"Manufacturing growth in India lost momentum in February, with output and new orders expanding at softer rates than those seen in the past four months. Additionally, the moderation in the growth rate was evident across the three monitored market groups. Subsequently, employment decreased, reversing the marginal rise seen in January.

"Output charge inflation was historically muted as some manufacturers offered discounts due to a competitive environment. Furthermore, costs fell for the first time in almost six years. On a positive note, foreign orders rose at a strong and accelerated pace, while the PMI remained in positive territory. These factors brighten the prospects for a rebound in output and employment in coming months."

Key points

- PMI down from 52.9 in January to 51.2 in latest month
- Growth of output and new orders softens further
- Employment levels decrease in February

Historical Overview



Sources: Markit, HSBC.

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Notes to Editors:

The HSBC India Manufacturing PMI is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 500 manufacturing companies. The panel is stratified geographically and by Standard Industrial Classification (SIC) group, based on industry contribution to Indian GDP. 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'.

The *Purchasing Managers' Index™ (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.

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.

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 Markit. Please contact economics@markit.com.

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About PMI:

Purchasing Managers' Index™ (PMI™) surveys are now available for 32 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 www.markit.com/economics