News Release

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Nikkei India Manufacturing PMI®

Output slides following implementation of goods and services tax

Key points:

- Manufacturing production dips at fastest rate since global financial crisis
- New business inflows contract for first time in year-to-date
- Companies reduce selling prices to stimulate demand

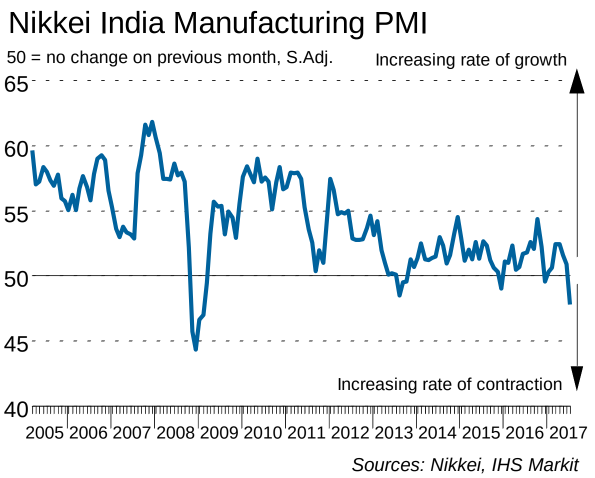
Data collected July 12-25

PMI survey data indicated that the introduction of the goods & services tax (GST) weighed heavily on the Indian manufacturing industry in July. New orders and output decreased for the first time since the demonetisation-related downturn recorded in December last year, with rates of contraction the steepest since February 2009 in both cases. Consequently, companies purchased fewer quantities of inputs for use in the production process, leading to an overall decline in holdings of raw materials and semi-finished items. Cost burdens increased further, but factory gate charges were lowered as firms attempted to win new business.

At 47.9 in July, down from 50.9 in June, the **Nikkei India Manufacturing *Purchasing Managers' Index*® (*PMI*®)** was at its lowest mark since February 2009 and highlighted the first deterioration in business conditions in 2017 so far. The downturn was widespread across the three broad areas of manufacturing, with intermediate goods producers the worst affected.

Incoming new work dropped for the first time in the year-to-date and at the steepest pace since early-2009. Anecdotal evidence indicated that the GST launch hampered demand. Different to the trend for total order books, new export orders continued to rise in July. That said, the rate of expansion softened from June's eight-month high.

Lower sales triggered an overall accumulation in stocks of finished goods. The rise in holdings of manufactured products was marginal, but interrupted a two-year period of ongoing depletion.



Discouraged by the downturn in factory orders, companies lowered production in July. The fall ended a six-month sequence of growth, and the rate of reduction was the most pronounced since the global financial crisis.

Fewer output requirements caused a reduction in purchasing activity. Although moderate, the contraction in buying levels was the quickest in eight-and-a-half years. Subsequently, inventories of inputs decreased.

According to Indian manufacturers, higher tax rates sparked greater cost burdens in July. However, the pace at which input costs rose was moderate and much weaker than its long-run average. Reflecting attempts to win new business in the face of a competitive environment, some companies lowered their selling prices. Overall, the rate of discounting was marginal. Prior to July, charges had increased for 16 months in succession.

After having increased in June, payroll numbers fell in the current reporting month. But, with the vast majority of panellists signalling unchanged headcounts, the rate of job shedding was marginal overall.

The 12-month outlook for output remained positive in July, with companies expecting more clarity regarding the GST to support growth. New projects in the pipeline and improved product quality were also mentioned as reasons underpinning positive sentiment. The level of confidence was at an 11-month high.

Comment:

Commenting on the Indian Manufacturing PMI survey data, **Pollyanna De Lima,** Principal Economist at IHS Markit and author of the report, said**:**

"Manufacturing growth in India came to a halt in July, with the PMI down to its lowest mark in almost eight-and-a-half years amid widespread reports that the sector has been adversely affected by the implementation of the goods and services tax. The reductions in output, new orders and purchasing activity were all the steepest since early-2009.

"The downturn was broad-based across all sub-sectors covered by the survey, with output scaled back among firms in the consumer, intermediate and investment goods categories amid falling order books.

"The weakening trend for demand, relatively muted cost inflationary pressures and discounted factory gate charges provide powerful tools for monetary policy easing, which has the potential to revive economic growth.

"Upcoming PMI releases will show whether underlying conditions remain on the downside or if July's contraction was a temporary blip. Goods producers foresee the latter, with panellists widely commenting that a lack of clarity regarding tax rates caused confusion among suppliers and manufacturers themselves when agreeing on prices. As such, businesses expect GST information to become clearer in coming months."

-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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