Nikkei India Manufacturing PMI™

Indian manufacturing economy gains momentum in July

Key points:

- PMI rises from 51.3 in June to 52.7
- Output growth accelerates amid stronger rise in new work
- New orders from abroad expand at quickest pace since February

Summary:

July saw manufacturing business conditions across India improve further. A solid and accelerated increase in new orders led firms to raise production accordingly. Moreover, growth of both domestic and foreign demand were reported, with new business from abroad rising at the quickest rate since February. On the price front, a marginal rise in costs was registered, whereas average selling prices were unchanged over the month.

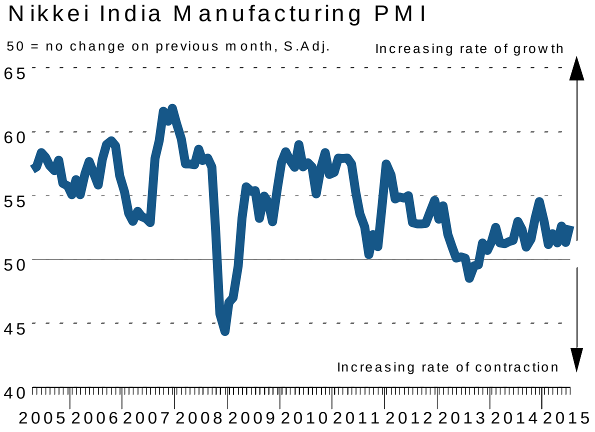
Posting a six-month high of 52.7 in July, from 51.3 in June, the seasonally adjusted Nikkei India Manufacturing *Purchasing Managers' Index*™ *(PMI)*™ – a composite single-figure indicator of manufacturing performance – was consistent with a solid improvement in the health of the country's goods-producing sector.

Output continued to grow in July, with increases seen across the three monitored market groups. Moreover, the overall rate of expansion was solid and faster than in June. Underpinning the rise in production levels was a sharper increase in new business inflows. In fact, growth of new orders gathered pace across the three broad areas of the manufacturing economy. Anecdotal evidence highlighted stronger demand from both domestic and foreign clients.

Indeed, growth of new export business accelerated in July and was the most pronounced in five months. Panellists reported having been able to secure new contracts in tandem with successful price negotiations with clients.

There was evidence of building pressures on the capacity of Indian manufacturers' operations, as outstanding business was accumulated for the second month running and at the quickest pace since March.

Historical Overview:



Sources: Nikkei, Markit

Despite the uptick in growth, Indian manufacturers continued to cut workforce numbers in July. Nonetheless, the rate of job shedding was only marginal as around 96% of panellists reported no change in employment from the levels recorded in the prior month.

Purchase prices rose further in July. Despite quickening since June, the rate of inflation was only marginal and well below the series long-run trend. Selling prices were unchanged on average, with companies highlighting efforts to secure new business.

Reflecting the rebound in new orders, Indian manufacturers raised their buying levels in July. The rate of expansion was marked and faster than in June.

Concurrently, stocks of purchases were accumulated again in July and at a pace that was the fastest in the year-to-date. Conversely, holdings of finished goods fell, with survey respondents indicating that orders were often fulfilled directly from stocks.

Comment:

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

"Growth in India's manufacturing economy rebounded in July, with the PMI rising since the prior month. This reflects stronger increases of new orders and output. Furthermore, the sector was also boosted by the quickest expansion in export orders since February.

"Although the latest data suggest that the manufacturing upturn gained traction, worries regarding the labour market persist. Continued job shedding highlights the concern felt by businesses towards the outlook, with firms failing to increase workforce numbers to any great extent since early 2014.

"In spite of a further rise in costs, efforts to address competitiveness were evident as selling prices were unchanged during July. Cost inflation was, however, weak in the context of historical data.

"While this is a generally positive set of data, upcoming PMI data releases will indicate whether the manufacturing sector can sustain this momentum."

-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 300 industrial companies. The panel is stratified by Standard Industrial Classification (SIC) group, based on the industry contribution to GDP. 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.
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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