# HSBC India Manufacturing PMI™

## Modest improvement in business conditions as PMI drops to nine-month low

### Summary

Operating conditions in the Indian manufacturing sector improved for the eleventh month in succession in September, although the pace of growth weakened to the slowest since December 2013. This was matched by slowdowns in output and new order growth, while cost pressures eased during the latest survey period.

Adjusted for seasonal factors, the headline *HSBC India Purchasing Managers' Index™ (PMI™)* – a composite gauge designed to give a single-figure snapshot of manufacturing business conditions – dropped from 52.4 in August to 51.0 in September. The reading was indicative of a modest improvement in operating conditions. Overall, intermediate goods was the best performing among the three monitored sub-sectors.

As a result of improvements in demand, output expanded for the eleventh consecutive month in September. However, the pace of growth slowed from August and was moderate overall. By sub-sector, the strongest expansion occurred in the intermediate goods category.

September data confirmed reports of stronger demand as new orders rose for the eleventh month running. That said, the rate of increase weakened to the joint-slowest in that sequence. Growth of new business was broad-based by sector, with the sharpest rise noted in capital goods.

Indian manufacturers saw new business from abroad grow at an accelerated pace in September. Panel members commented on strengthening demand from key export clients. Marked expansions in foreign orders were reported in the consumer and intermediate goods sub-sectors, while exports fell at producers of investment goods.

Meanwhile, purchasing activity rose in line with production and new orders, as the rate of expansion slowed to a four-month low in September. Buying activity grew across each of the surveyed categories during the month. Subsequently, input stocks increased fractionally in September. In contrast, Indian manufacturers reduced their post-production inventories, marking the end of a year-long period of accumulation.

Workforce numbers remained broadly stable in September, as the vast majority of survey respondents signalled no change in staffing levels. Among the monitored sub-sectors, job losses in consumer and investment goods were offset by marginal job creation at intermediate goods companies.

Inflationary pressures from both inputs and outputs eased further in September. Input costs continued to rise at a solid pace, but the rate of cost inflation decelerated sharply from the prior month. Higher prices paid for metals, chemicals and energy led to the overall rise in raw material costs. Concurrently, selling prices were broadly unchanged in September, as the seasonally adjusted index posted only fractionally above the neutral 50.0 threshold.

### Comment

Commenting on the India Manufacturing PMI™ survey, Frederic Neumann, Co-Head of Asian Economic Research at HSBC said:

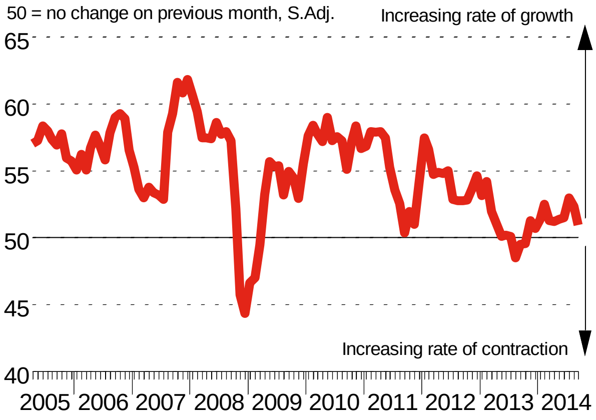
*"Manufacturing activity continues to slow amid weaker output and new order flows. Responding to the slowdown, firms lowered purchases and trimmed inventories. On the positive side, the rate of cost inflation decelerated sharply and output prices were unchanged. The central bank is likely to look beyond the near term moderation and keep policy rates elevated so as to reign in entrenched inflation expectations. The RBI would rather see growth recover supported by supply side reforms than through monetary policy stimulus."*

### Key points

- Output and new orders grow at weaker rates
- Robust expansion in new export business
- Cost inflationary pressures ease to mildest since May 2013

### Historical Overview

HSBC India Manufacturing PMI




*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