HSBC Purchasing Managers' Index™ Press Release
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compiled by markit

HSBC India Manufacturing PMI™

New order growth at three-month high in May

Summary

May data indicated that production volumes at Indian manufacturers continued to rise. Growth of both total new orders and new export business accelerated over the month, leading to further job creation across the sector.

Up marginally from 51.3 in April to 51.4 in May, the seasonally adjusted *HSBC India Purchasing Managers' Index™ (PMI™)* pointed to a slight improvement in operating conditions and one that was weaker than the series average.

Output rose for the seventh consecutive month in May. That said, the rate of expansion was unchanged from the modest pace registered in April. Panellists highlighted stronger increases in new orders, although there were mentions that growth was stymied by powercuts and the elections. The latest rise in production was broad-based by sector, with the sharpest expansion signalled by consumer goods producers.

May data highlighted further rises in incoming new work, marking a seven-month sequence of expansion. Moreover, the pace of increase accelerated to the quickest since February. Those survey respondents reporting higher new orders commented on the signing of new contracts and improved demand from both domestic and foreign clients. Growth of order book volumes was registered across the three broad areas of the manufacturing economy, led by consumer goods producers.

New orders from abroad also increased during May, thereby stretching the current period of expansion to eight months. New export business rose at a solid rate that was quicker than in April. Surveyed firms reported having benefited from favourable exchange rates. Overseas demand improved in two of the three sub-categories, the exception being investment goods.

Staffing levels were raised in May, amid evidence of increased production requirements. Employment growth has maintained a broadly steady trend pace in the current eight-month expansionary sequence. All three monitored sub-sectors registered higher workforce numbers.

Indian manufacturers indicated that purchasing activity increased further in May. Where input buying rose, this was associated with new order growth. Nonetheless, the rate of expansion was only slight and moderated since the previous month. Growth of quantity of purchases was noted across the three market groups.

Input costs continued to rise in May, albeit at the weakest rate in one year. There were reports of higher prices paid for some raw materials, although a number of panellists reported successful price negotiations with suppliers. Concurrently, output charges increased further. The rate of charge inflation was, however, marginal and weaker than the series average.

While stocks of purchases were broadly unchanged, post-production inventories increased in May. Meanwhile, outstanding business rose further during the latest month, with monitored firms reporting power outages.

Comment

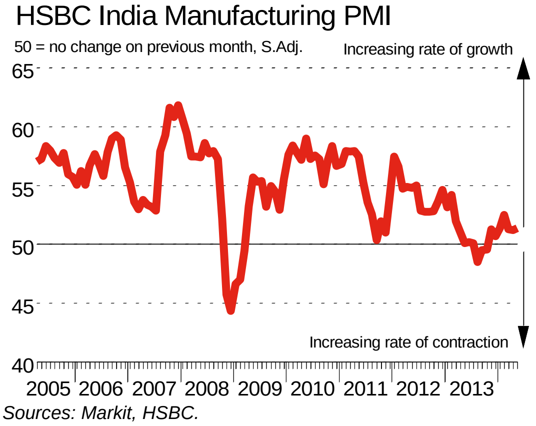
Commenting on the India Manufacturing PMI™ survey, Frederic Neumann, Co-Head of Asian Economic Research at HSBC said:

"The momentum in the manufacturing sector improved at the margin, thanks to higher domestic and export order flows. However, output growth held steady as frequent power cuts forced firms to accumulate backlogs at a faster pace. Encouragingly, input price pressures eased further, but with output prices still rising the RBI cannot take down its inflation guards."

Key points

- Moderate increase in new business flows
- Output expands for seventh successive month
- Firms continue to add to their workforce numbers

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