

Nikkei India Manufacturing PMI[®]

Business conditions improve, but at a slower pace

Key points:

- PMI falls to 52.4 in January
- Output and new orders expand, but at slower rates
- Fastest increase in new export orders since September 2016

Data collected January 12-25

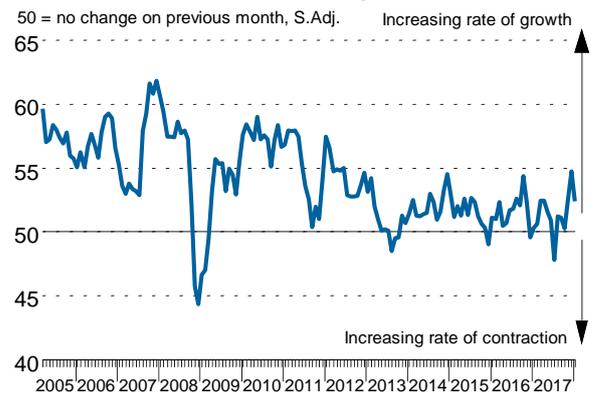
Following December's strongest improvement in 60 months, growth momentum across India's manufacturing economy lost some impetus as output, new orders and employment rose at slower rates during January. Encouragingly, new export orders rose at the sharpest pace since September 2016. On the price front, input cost inflation remained marked and broadly similar to December's eight-month high. In spite of increased cost pressures, firms were restricted in their ability to fully pass these on to clients due to intense competition. As a result, charges rose only marginally.

The Nikkei India Manufacturing Purchasing Managers' Index[®] (PMI[®]) fell from December's 60-month high of 54.7 to 52.4 in January. This was consistent with a modest improvement in operating conditions across India's goods producing economy. Notably, the headline PMI Index registered below the long-run average (54.1). Growth was registered across all three broad market groups, led by consumer goods.

Production levels increased during January, thereby extending the current period of expansion to six months. Where an increase was registered, firms commented on stronger underlying demand conditions. Although solid, the rate of expansion eased to the weakest since October and was below the series average.

At the same time, new order book volumes increased for the third consecutive month. Although solid, the rate of growth eased to the slowest in this sequence.

Nikkei India Manufacturing PMI



Sources: Nikkei, IHS Markit.

Growth in total new orders was supported by stronger sales from international clients. Furthermore, the rate of expansion was the most pronounced since September 2016 and marked overall.

Amid reports of delayed payments, outstanding business continued to rise during January. That said, the rate of backlog accumulation eased to a marginal pace.

In response to improved demand conditions, firms raised their staffing levels during January. However, the pace of job creation eased to a modest pace that was the weakest since last October.

In response to greater output requirements, firms increased their purchasing activity in January. Despite easing from December, the rate of growth was solid overall. According to anecdotal evidence, firms were encouraged to engage in input buying due to stronger demand conditions.

Manufacturers faced higher inputs costs during January. The rate of input cost inflation was broadly similar to December's eight-month high but remained below the long-run trend. Panellists associated greater raw material prices with stronger levels of demand. As has been the case since last August, manufacturers raised their average selling prices. That said, charge inflation eased to a marginal rate.

January's survey showed manufacturers retained positive projections for output over the next 12 months. That said, the level of positive sentiment remained weak by historical standards.

Comment:

Commenting on the Indian Manufacturing PMI survey data, **Aashna Dodhia**, Economist at IHS Markit and author of the report, said:

“Following December’s stellar performance, growth in the Indian manufacturing economy lost some impetus, reflected by slower growth in output, new orders and employment. Nevertheless, these key PMI indicators registered in expansion territory signalling the sector stayed on its track to recovery.

“There were reports of improvements from both domestic and foreign markets. Encouragingly, new export orders increased at the strongest pace since September 2016. A revision on rates of duty drawbacks on 102 items is expected to enhance India’s international competitiveness, and possibly translate into stronger overseas demand over the coming months.

“On the other hand, the Goods and Services Tax (GST) somewhat continues to remain a risk to business performance as firms faced further delayed payments.

“On the price front, higher input costs continued to exert pressure on firms’ margins as manufacturers were reportedly unable to fully pass on higher cost burdens to customers that remained reluctant to spend.”

-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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