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Nikkei India Manufacturing PMI®

Business conditions improve, but at a slower pace in May

Key points:

- Headline PMI index registers at 51.2 in May
- Output and new orders rise at a slower pace
- Cost pressures intensify in May

Data collected May 11-24

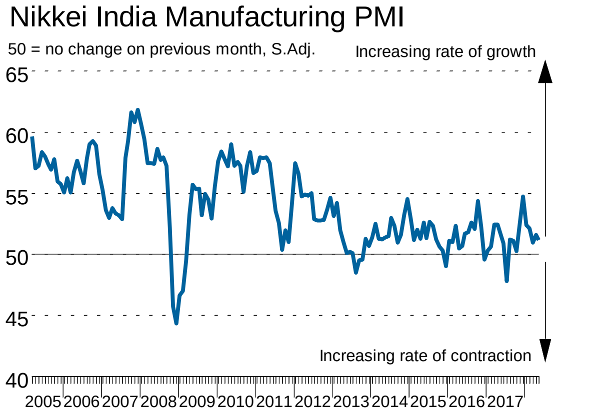
Latest survey data signalled a further, albeit weaker, improvement in Indian manufacturing conditions. This was reflected by weaker expansions in output and new orders and employment. Inflationary pressures intensified with both input and output prices rising at the fastest pace since February. Looking ahead, business optimism was weak by historical standards.

The Nikkei India *Manufacturing Purchasing Managers' Index® (PMI®)* fell from 51.6 in April to 51.2 in May. The latest upturn signalled a marginal improvement in the health of the manufacturing sector. Overall, the respective index registered above the neutral 50.0 threshold for the tenth consecutive month.

Manufacturing output rose in May, thereby marking a 10-month sequence of expansion. Where an increase was reported, panellists commented on an improvement in demand conditions. However, the rate of increase slowed to a modest pace. Greater production in consumption and intermediate groups continued to outweigh a decline in investment goods.

In line with the trend for output, new orders placed at Indian manufacturing companies rose in May. Panellists suggested that enhanced marketing initiatives supported new client wins. As was the case with output, the latest upturn was modest. Meanwhile, amid reports of greater demand from international markets, Indian manufacturers reported the strongest gain in new export orders since February.

Reflecting the trends observed in output and new orders, firms raised their staffing levels in May, albeit at a softer pace. Greater production requirements were cited as the key reason behind the latest rise in employment.



Sources: Nikkei, IHS Markit.

Latest survey data indicated a back-to-back monthly rise in outstanding business during May. Survey respondents linked this to delayed client payments and greater volumes of new business.

Purchasing activity declined for the first time in seven months in May, albeit only fractionally. Meanwhile pre-production items held by Indian manufacturing companies rose at a slower pace. Stocks of finished goods, on the other hand, declined further in May. Despite easing from April's survey record, the rate of contraction was sharp.

Indian manufacturing companies faced higher input costs in May, thereby stretching the current sequence of inflation to 32 months. Panellists commented on higher prices for raw materials such as oil and steel. Reflecting higher cost burdens, firms raised their selling prices in May. Both input and output price inflation picked-up to the strongest since February.

Businesses remained confident towards the 12-month outlook for output in May. An expected improvement in demand conditions boosted optimism, according to anecdotal evidence. That said, the respective index remained below the historical average.

Comment:

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

"The latest PMI survey signalled a further, albeit slower, improvement in the health of the manufacturing sector in May. This was reflective of weaker expansions in output, employment and new business. On the other hand, the gain in new orders from overseas markets was the strongest since February."

"A build-up of inflationary pressures re-emerged with input cost and output charge inflation at the strongest since February, due to the upswing in global oil prices. As a net importer of crude oil, this could potentially destabilise India's recovery, particularly in private consumption. At the same time, IHS anticipates that high oil prices will lead to a further depreciation of the Indian rupee and a wider current account deficit. Subsequently, in efforts to contain inflation and maintain financial stability, it is likely that the RBI will raise interest rates over the summer."

-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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