Nikkei India Manufacturing PMI™

Manufacturing sector dips into contraction amid money crisis

Key points:

- Output and new orders fall for first time in one year
- Companies reduce buying levels and payroll numbers
- Input cost inflation accelerates, while charges rise at softer rate

Data collected December 6-16

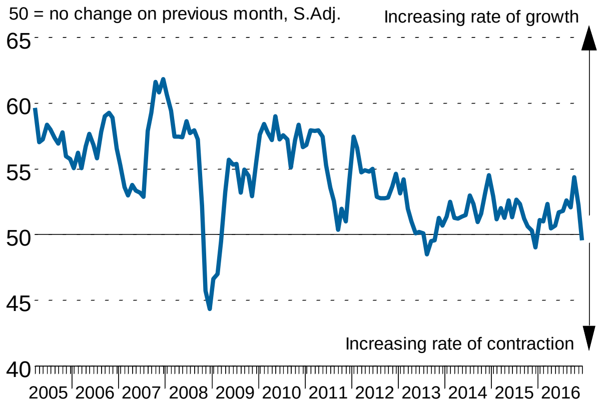
PMI data for December indicated that the rupee demonetisation took a toll on manufacturing performance. Companies saw new work and output dip for the first time in 2016. In turn, quantities of purchases were scaled back and employment lowered. Meanwhile, input costs increased at a quicker rate, whereas output charge inflation eased.

The headline seasonally adjusted Nikkei India Manufacturing *Purchasing Managers' Index™* (*PMI™*) recorded below the crucial 50.0 threshold for the first time in 2016 during December. Down from 52.3 in November to 49.6, the latest reading was indicative of a marginal deterioration in the health of the sector. Nevertheless, the average over the October-December quarter (52.1) was broadly in line with that seen in the July-September period (52.2).

Four of the five sub-components of the PMI edged below 50.0, while average delivery times lengthened further. At the sector level, operating conditions deteriorated in both the consumer and intermediate goods categories.

Panel members widely blamed the withdrawal of high-value rupee notes for the downturn, as cash shortages in the economy reportedly resulted in fewer levels of new orders received. Concurrently, manufacturers lowered output accordingly. Rates of contraction in new work and production were marginal overall, but in both cases the reductions were the first in 2016. Businesses also highlighted challenging conditions in external markets, with a fall in new business from abroad ending a six-month sequence of growth.

Nikkei India Manufacturing PMI



Sources: Nikkei, IHS Markit

Cash shortages and lower workplace activity resulted in job shedding and falling buying levels during December. Payroll numbers decreased only marginally, however, as the vast majority of panellists signalled unchanged workforces. A similar trend was seen with regards to quantities of purchases.

Higher prices paid for a range of raw materials led average cost burdens to increase for the fifteenth straight month in December, with the rate of inflation picking up since November. On the other hand, output charges rose at the slowest pace since August.

Both pre- and post-production stocks decreased during December. The former saw the first monthly drop in 13 months, while inventories of finished goods declined for the eighteenth month running (albeit to the least extent in this sequence).

Finally, cash flow issues reportedly impaired manufacturers' ability to work on outstanding business. Backlogs rose for the seventh consecutive month, but at the slowest rate in this sequence.

Continues…

Comment:

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

"Having held its ground in November following the unexpected withdrawal of 500 and 1,000 bank notes from circulation, India's manufacturing industry slid into contraction at the end of 2016. Shortages of money in the economy steered output and new orders in the wrong direction, thereby interrupting a continuous sequence of growth that had been seen throughout 2016. Cash flow issues among firms also led to reductions in purchasing activity and employment.

"As the survey showed only a mild decline in manufacturing production in the last month of the year, the average reading for the Oct-Dec quarter remained in growth terrain, thereby suggesting a positive contribution from the sector to overall GDP in Q3 FY16/17. With the window for exchanging notes having closed at the end of December, January data will be key in showing whether the sector will see a quick rebound."

-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.
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@ihsmarkit.com.

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