Nikkei India Manufacturing PMI®

Business conditions stagnate in October

Key points:

- PMI falls to 50.3 in October
- Output rises fractionally while new orders stagnate
- Level of positive sentiment falls to the weakest since February

Data collected October 12-25

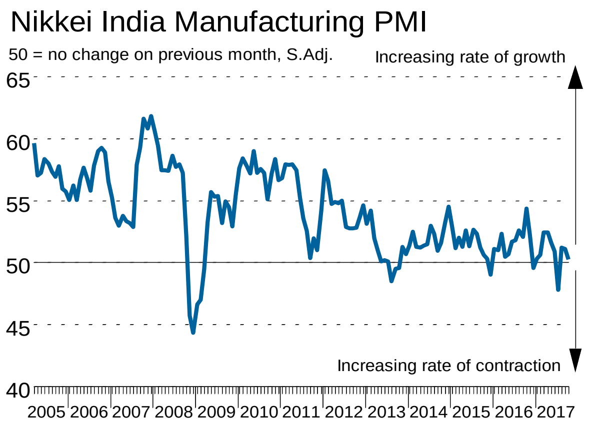
Growth in India's manufacturing sector lost momentum in October. Output rose only fractionally and new orders stagnated over the month. In response to subdued demand conditions, both purchasing activity and pre-production inventories decreased. Encouragingly, firms added to their payroll numbers at a similar pace to September's 59-month high in response to greater volumes of outstanding business.

On the price front, input cost pressures rose to the fastest since May. Subsequently, firms reportedly raised their output prices to pass on greater cost burdens to clients and to protect profit margins. Meanwhile, the level of business confidence eased to the weakest since February.

At 50.3 in October, the Nikkei India Manufacturing Purchasing Managers' Index® (PMI®) fell from 51.2 in September. This indicated a broad stagnation in the health of the manufacturing sector during October. At the sector level, improvements in consumer goods negated deteriorations in investment and intermediate goods.

The downward movement in the headline index was partly driven by a stagnation in new business. Panellists linked subdued demand conditions to negative impacts of GST. Meanwhile, new export orders for Indian goods reduced in October. Moreover, the rate of contraction was the fastest since September 2013.

Output growth eased to a fractional pace, and one that was the slowest in the current three-month period of rising production. Where an increase in output was registered, firms associated this with stronger demand. Where a decrease in output was observed, firms blamed the negative effects of GST.



Sources: Nikkei, IHS Markit.

Employment increased for the third consecutive month in October. The rate of payroll growth was modest and broadly unchanged from September's recent high. Firms associated a rise in employment with greater outstanding business.

On the price front, manufacturing companies continued to face higher input costs, which rose at the fastest pace since May. Firms raised their output charges to pass on higher cost burdens to clients. That said, their ability to fully pass on higher input costs was restricted due to competitive conditions. Reflecting subdued demand conditions, firms were discouraged from engaging in input buying. Purchasing activity fell for the first time in three months, albeit marginally. Meanwhile, pre-production stocks reduced in October.

Delivery times lengthened for the seventh month running. That said, the rate of deterioration in vendor performance was only marginal. A lack of raw materials disrupted supply chains across the manufacturing sector, according to anecdotal evidence.

Finally, the level of positive sentiment among manufacturers towards output growth eased to the weakest since February. Optimism was rooted in projected benefits of GST materialising over the next 12 months. However, some firms expressed concerns over negative GST effects.

Comment:

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

"India's manufacturing companies struggled somewhat as the recent recovery enjoyed by the sector lost impetus in October. Disappointingly, manufacturing production rose at the weakest pace in the current sequence of growth. Inflows of new orders stagnated as the negative effects arising from the implementation of GST continued to dampen demand levels. Furthermore, overseas demand for Indian goods dipped to the greatest extent since September 2013.

"On the bright side, the labour market continued to improve, with manufacturers further increasing their staffing levels, and at a pace similar to September's 59-month high.

Business confidence eased to the weakest since February as some firms expressed concerns over negative GST effects. However, those manufacturers that were optimistic forecasted benefits of GST materialising over the next 12 months."

-Ends-

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For further information, please contact:

IHS Markit (About PMI and its comment)
Aashna Dodhia, Economist
Telephone 44 1491 461 003
Email aashna.dodhia@ihsmarkit.com

Joanna Vickers, Corporate Communications
Telephone 44 207 260 2234
E-mail joanna.vickers@ihsmarkit.com

Bernard Aw, Principal Economist
Telephone 65 6922 4226
E-mail bernard.aw@ihsmarkit.com

Nikkei inc. (About Nikkei)
Ken Chiba, Deputy General Manager, Public Relations Office
Atsushi Kubota, Manager, Public Relations Office
Telephone 81-3-6256-7115
Email koho@nex.nikkei.co.jp

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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