Nikkei India Manufacturing PMI™

Manufacturing production increases at slower rate as new order growth softens

Key points:

- Solid, although slower, increases in both output and new orders
- Stocks of finished goods drop at sharpest pace in survey history
- Lower cost burdens enable manufacturers to reduce output prices

Summary:

Although manufacturing business conditions continued to improve in August, latest data pointed to weaker rates of expansion for both output and new orders. On the price front, input costs decreased for the first time in six months and, subsequently, firms lowered their selling prices. Elsewhere, post-production inventories contracted at the sharpest pace since data were first collected in April 2005.

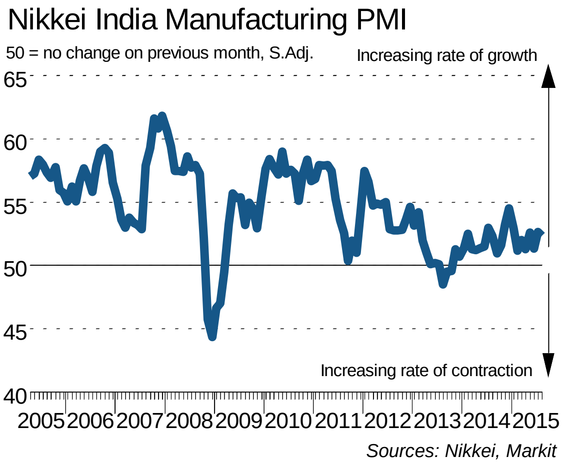
At 52.3 in August, down from July's six-month high of 52.7, the seasonally adjusted Nikkei India Manufacturing *Purchasing Managers' Index*TM *(PMI)*TM – a composite single-figure indicator of manufacturing performance – pointed to a further, although weaker, improvement in the health of the sector.

Underpinning the downward movement in the headline index were softer increases in output, new orders and stocks of purchases, whereas employment levels stagnated over the month. Suppliers' delivery times, the remaining sub-component of the PMI, were broadly unchanged.

Boosted by sustained demand growth, manufacturing production across India rose further in August. Although still solid, the rate of expansion eased since July and was below the long-run series average. New order growth also moderated in August, reflecting weaker improvements in both domestic and foreign demand.

Amid evidence of increased production requirements and efforts to replenish stocks, Indian manufacturers raised their buying levels in August. Purchasing activity grew at a sharp rate that was the quickest in 2015 so far.

Historical Overview:



There were divergences with regards to stock levels in August. Holdings of finished goods contracted at the sharpest pace in the history of the series, with survey respondents commenting on the fact that orders had been fulfilled directly from stocks. Conversely, pre-production inventories rose, led by further increases in buying activity.

Manufacturing employment was unchanged in August, with panellists indicating that hiring had been stymied by relatively weak growth and economic uncertainty. Nonetheless, companies were able to lower their levels of outstanding business in August. Where backlogs of work fell, this was linked to productivity improvements.

Reflecting lower prices paid for metals, plastics, chemicals and petroleum-based products, average costs faced by Indian manufacturers fell in August. Although slight, the rate of reduction was the fastest since March 2009. Average tariffs were, subsequently, reduced for the first time since April.

The consumer goods category outperformed the capital and intermediate goods sub-sectors in terms of growth of output, new orders and buying levels.

 compiled by markit

Comment:

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

"Growth of Indian manufacturing production waned in August on the back of softer improvements in both domestic and foreign demand. This led firms to keep payroll numbers unchanged during month.

"A sharp increase in buying levels coupled with a record drop in stocks of finished goods, however, indicates that output growth will likely rebound in coming months.

"Meanwhile, falling global commodity prices resulted in an overall reduction in cost burdens. This provided companies with more room for price negotiations and tariffs were lowered on average. As inflation concerns fade and demand growth loses momentum, further accommodative policy should not be discounted."

-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 300 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@markit.com.

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