Nikkei India Manufacturing PMI®

Indian manufacturing production and new orders increase in September

Key points:

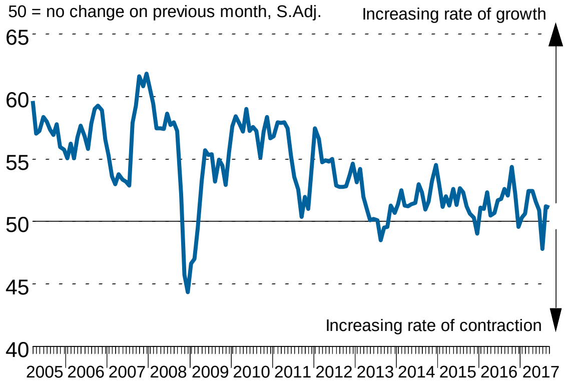
- PMI again registers at 51.2
- New orders and output continue to rise
- Fastest decrease in post-production inventories observed in the survey's history

Data collected September 12-25

September saw a sustained expansion in the Indian manufacturing sector, supported by increases in both output and new orders. However, the rates of expansion eased slightly in both cases. Reflecting greater inflows of new work, Indian manufacturers raised their staffing levels, and at the fastest pace since October 2012. Meanwhile, post-production inventories reduced during September at a survey-record pace. Cost burdens increased further over the month. Consequently, firms raised their output charges to pass on higher input costs to customers.

At 51.2 in September, the Nikkei India Manufacturing Purchasing Managers' Index® (PMI®) was unchanged from August. The reading was indicative of a modest improvement in manufacturing sector business conditions in September, and one that was below the long-run trend (54.1). The PMI has now registered above 50.0 for two successive months. Growth in the consumer and intermediate goods categories offset a contraction in the investment goods sector.

Inflows of new orders increased for the second month in succession during September. The rate of growth softened from the preceding month and was marginal overall. Where an increase was registered, firms cited stronger domestic demand conditions. Those panellists that recorded lower new business commented on the negative impact of GST. Meanwhile, new export orders decreased, thereby ending a three-month period of expansion as demand from international markets reduced. That said, the rate of contraction was fractional.



Sources: Nikkei, IHS Markit.

Mirroring the trend for new orders, output increased for the second consecutive month as the manufacturing sector continued to rebound from July's decline. That said, the rate of growth softened from the prior month, and was modest. Favourable economic conditions and strong underlying demand were linked by survey respondents to greater production.

Reflecting improvements in new orders (and subsequent capacity pressures), manufacturing producers continued to increase their payroll numbers in September. In fact, the rate of employment growth quickened to the fastest since October 2012. Staffing levels have risen in three of the past four months. That said, the rate of employment was modest.

The introduction of GST, as well as greater prices for steel and petroleum products reportedly caused cost pressures to intensify during September. The rate of inflation was modest, and remained below the long-run series average. Firms raised their selling prices to protect margins amid higher inflationary pressures. Nonetheless, due to competitive conditions, firms were only able to increase output charges at a marginal pace.

Destocking continued at the end of the third quarter, with both pre- and post-production inventories reducing. The latter decreased at the most pronounced rate observed since the inception of the series. Survey respondents reported that orders had been fulfilled directly from existing stocks.

Comment:

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

"September data painted an encouraging picture as the sector continued to recover from the disruptions caused by the introduction of the GST in July. This sustained amelioration reflected expansions in new work and output, supported by stronger domestic demand conditions. Subsequently, business confidence strengthened among manufacturers as they reportedly anticipate long-term benefits from recent government policies. This was confirmed as the sector experienced meaningful gains in employment. That said, output and new business growth remained weak in the context of historical survey data.

"The strengthening of the Indian rupee may put a strain on efforts to rejuvenate demand for Indian goods from export markets. Meanwhile, cost pressures intensified during September, but inflation remained weaker than the long-run trend.

"The lingering effects of recent economic shocks continue to cast a shadow on economic growth as IHS Markit downgrades its real GDP growth forecast to 6.8% for fiscal year 2017/18. It will be interesting to see if India's new economic advisory council will bolster its path to recovery."

-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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