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Nikkei India Manufacturing PMI®

Output rises at softer rate as growth of order books wanes

Key points:

- Production expands at weakest pace since February
- Growth of new orders at four-month low
- Employment and buying levels increase only marginally

Data collected June 12-26

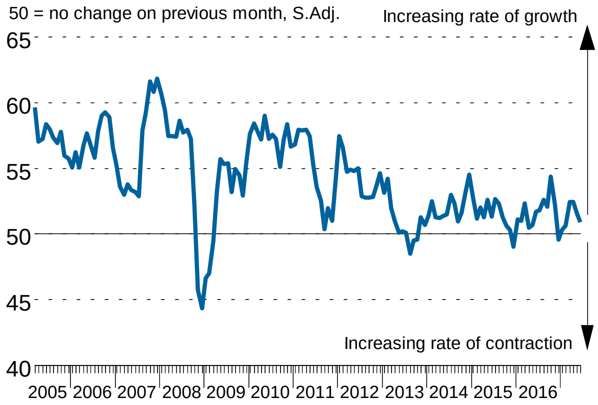
PMI data highlighted a slowdown in growth across India's manufacturing sector during June. A softer rise in factory new orders resulted in weaker growth of production, with rates of expansion at four-month lows in both cases. At the same time, payroll numbers and purchasing activity increased only marginal. Meanwhile, goods producers signalled a solid upturn in new work from abroad, one that was the most pronounced in eight months. On the price front, there were signs of inflationary pressures losing speed as input costs rose to a lesser extent than in May.

Down from 51.6 in May to a four-month low of 50.9 in June, the **Nikkei India Manufacturing *Purchasing Managers' Index*® (*PMI*®)** pointed to a slight and weaker improvement in the health of the sector. Nevertheless, the headline figure averaged 51.7 during the April to June quarter, above the one seen in Q4 FY 2016 (51.2).

One factor weighing on the PMI reading for June was a softer expansion in new work, the index's largest sub-component. Growth of total order books eased to a four-month low, with the intermediate goods category the key source of weakness. New orders received by consumer goods firms continued to rise strongly, while capital goods producers recovered from May's contraction.

Output across India's manufacturing economy rose for the sixth month in a row during June, which survey participants linked to ongoing increases in client demand. That said, challenging economic conditions, water shortages and the upcoming implementation of the goods & services tax (GST) reportedly hampered growth. As was the case for new orders, production expanded in the consumer and capital goods categories, but fell at producers of intermediate goods.

Nikkei India Manufacturing PMI



Sources: Nikkei, IHS Markit

June data pointed to ongoing growth of buying levels, though the rate of expansion softened from May. Staffing numbers also rose, albeit marginally. Meanwhile, a fractional increase in backlogs was registered.

Foreign demand for Indian-manufactured goods improved in June, with new export orders up at the quickest pace since October 2016. This followed a reduction in new work from abroad in May.

There remained divergences with regards to stock levels as a reduction in inventories of finished goods contrasted with an overall accumulation in holdings of raw materials and semi-finished items.

Input costs continued to increase, with anecdotal evidence pointing to higher prices for chemicals, food, plastics and rubber. However, the rate of inflation was modest and the weakest since August 2016. Likewise, output charges rose only slightly and at a below-trend pace.

Looking ahead, manufacturers in India forecast output growth in the coming 12 months, with optimism supported by new developments and anticipations of higher demand stemming from lower tax rates. However, some companies mentioned that the implementation of the GST bill will have a negative impact on their businesses.

Overall, the level of confidence fell to a three-month low.

Comment:

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

"For the third month in a row production growth in India eased during June. The slowdown occurred due to weak client demand, with order books up at a slight and softer pace. In many cases, businesses indicated that growth was held back as a reflection of water scarcity and the impending introduction of the goods & services tax (GST).

"Confidence towards future performance was mixed among goods producers. While the new tax system is anticipated by some firms to generate more business, others expect the GST to have a detrimental impact on their order books. As such, overall optimism slipped to a three-month low.

"On a more cheerful pitch, the PMI survey showed strong foreign demand for Indian-manufactured products in June. New orders from external markets increased at a solid rate that was the most pronounced in eight months.

"June rounded off a relatively strong quarter for manufacturers with the PMI average of 51.7 for Q1 FY 17 above the one seen in the previous quarter (51.2). With the impacts of demonetisation largely over and the GST unlikely to substantially derail consumer spending, IHS Markit forecast real GDP growth to hit 7.3% for FY 17/18 as a whole."

-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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