News Release

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Nikkei India Manufacturing PMI®

Strongest improvement in manufacturing conditions since December 2012

Key points:

- PMI increases to 54.7 in December
- Output growth hits a five-year high
- Fastest increase in new orders since October 2016

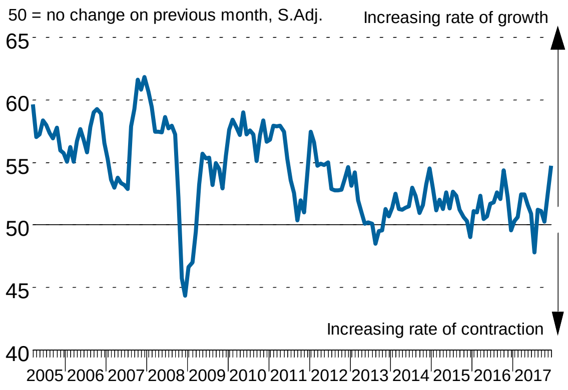
Data collected December 5-15

The Indian manufacturing sector ended the year on a strong note, with operating conditions improving at the strongest rate in five years. The overall upturn was supported by the sharpest increase in output and new orders since December 2012 and October 2016 respectively. In response to greater inflows of new business, job creation quickened to the greatest since August 2012. On the price front, input cost inflation accelerated to the strongest since April and was marked overall. Subsequently, firms raised their average selling prices at the fastest pace since February.

At 54.7 in December, the Nikkei India Manufacturing Purchasing Managers' Index® (PMI®) rose from 52.6 in November. This was consistent with the strongest improvement in the health of the sector since December 2012. Notably, the PMI reading was slightly stronger than the average (54.0) recorded since the inception of the survey in March 2005. At the broad market group level, growth was recorded across all three monitored categories (consumer, intermediate and investment).

The upward movement in the headline index was driven by a sharp increase in output. Furthermore, the rate of expansion quickened to the strongest since December 2012. Higher order book volumes and improved underlying demand conditions reportedly contributed to greater production. Notably, the rate of growth outstripped the trend seen since the start of the survey.

New orders placed at Indian manufacturers rose for the second month in succession during December. Furthermore, the rate of growth quickened to the sharpest since October 2016. According to anecdotal evidence, new business inflows were underpinned by greater demand from home and



Sources: Nikkei, IHS Markit.

international markets. In turn, new export orders rose at the quickest pace since June.

Resulting from improved demand conditions, Indian manufacturers upped their staffing levels at the end of the year. In fact, job creation accelerated to the strongest since August 2012.

In response to greater inflows of new orders, good producers were encouraged in December to engage in input buying at the sharpest rate since August 2015. As a consequence, the sector observed a modest increase in pre-production inventories for the first-time since June.

Meanwhile, the introduction of the Goods and Services Tax (GST) continued to exert upward pressure on manufacturers' cost burdens in December. Furthermore, input cost inflation accelerated to the strongest since April and was sharp overall. Reflecting greater cost pressures, firms raised their output charges for the fifth month in succession. Although the rate of inflation quickened to a 10-month high, it was modest and weaker than the long-run series average.

Finally, the Future Output Index signalled the strongest level of confidence in three months, with more than one-in-five survey participants forecasting higher production. Expectations of an improvement in economic conditions was cited as the key factor behind positive sentiment. That said, the level of business confidence remained below the trend observed for the survey history.

Comment:

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

“India’s goods-producing economy advanced on its recovery path, with operating conditions improving at the strongest pace since December 2012. Strong business performance was underpinned by the fastest expansions in output and new orders since December 2012 and October 2016 respectively. Anecdotal evidence pointed to stronger market demand from home and international markets.

“However, the sector continues to face some turbulence as delayed customer payments contributed to greater volumes of outstanding work. On the price front, July’s Goods and Services Tax (GST) continued to lead to greater raw material costs, with input cost inflation accelerating to the sharpest since April. As consumer spending recuperates, firms were restricted in their ability to pass on higher cost burdens to clients which further placed upward pressure on firms’ margins.

“Challenges remain as the economy adjusts to recent shocks, but the overall upturn was robust compared to the trend observed for the survey history. This outlook was shared by the manufacturing community as sentiment picked-up to the strongest in three months amid expected improvements in market conditions over the next 12 months.”

-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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