News Release

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Nikkei India Manufacturing PMI®

Manufacturing sector bounces back from July's contraction

Key points:

- New orders and output return to growth territory
- Companies hire additional workers and purchase more inputs
- Input cost inflation eases to one-year low

Data collected August 11-24

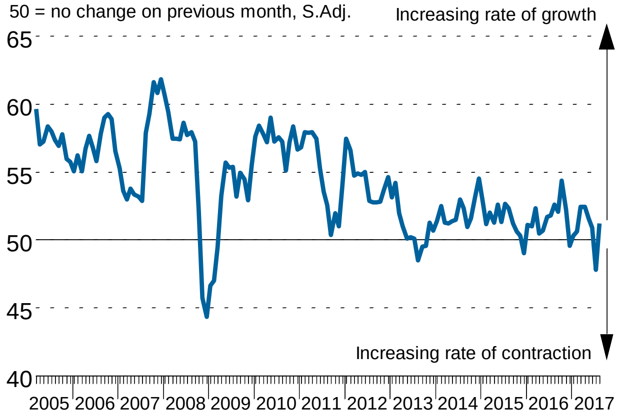
August saw a rebound in manufacturing new orders and output across India. The expansions were modest, but represented a substantial turnaround from July's GST-related contraction. Underlying data pointed to a broad-based recovery, with factory orders and production up in each of the three monitored sub-sectors. Companies responded to the improvement in operating conditions by creating jobs and purchasing additional raw materials and semi-finished items. Meanwhile, input cost inflation was reined in as the new tax system meant that some raw materials became cheaper. In fact, the overall increase in input prices was the weakest in a year.

Up from July's 101-month low of 47.9 to 51.2 in August, the **Nikkei India Manufacturing *Purchasing Managers' Index*® (*PMI*®)** signalled a renewed improvement in the health of the sector. The upturn reflected resumed growth of new orders, production and employment.

Order book volumes increased in August, after having posted the worst performance since early-2009 during July. Panellists indicated that the rise in new work stemmed from a better understanding of the new taxation system, alongside greater promotional activities and a pick-up in demand. Despite being moderate, the upturn in factory orders was the quickest since May. New export business also rose, although at the slowest pace in the current three-month period of growth.

Companies, in turn, increased production. The expansion was moderate, but contrasted with the sharp decline recorded in July. As was the case for new orders, output grew in the consumer, intermediate and investment goods categories.

Nikkei India Manufacturing PMI



Sources: Nikkei, IHS Markit.

To cope with higher workloads, manufacturers hired extra staff at the fastest pace since March 2013. At the same time, greater quantities of raw materials and semi-finished products were purchased. Buying levels expanded at a moderate rate that was the quickest since May.

While survey data showed a general lack of pressure on supply chains – highlighted by broadly unchanged delivery times for inputs – there were signs of strains on manufacturers' operating capacity, as backlogs of work increased to the greatest extent since May.

After having decreased in July, output prices rose in August as companies attempted to pass through to their clients ongoing increases in cost burdens. The rate of charge inflation was, however, negligible by historical standards. Input cost inflation softened to a one-year low as the introduction of the GST reportedly led to higher prices for some materials and cheaper rates charged for other items.

Indian manufacturers remained cheerful around growth prospects, with marketing efforts, the launch of new products and favourable economic conditions expected to lead to output growth in the year ahead. Nevertheless, worries about the possibility of unexpected policy decisions weighed on confidence and the level of sentiment fell from July's 11-month high.

Comment:

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

"August's PMI results showed that manufacturers in India recovered quickly from the sharp slump that followed the introduction of the goods & services tax. In July, firms indicated that orders, production and purchasing had been postponed due to a lack of clarity about the new tax regime, but they have now been resumed as manufacturers, suppliers and their clients have become more knowledgeable of the GST rates.

"All sub-sectors posted substantial recoveries, with capital goods outperforming its consumer and intermediate goods counterparts regarding growth rates for production.

"The picture for inflation is bright for producers and consumers. The rate of increase in input costs dipped to the lowest in one year, with companies indicating that decreases in the prices for some items partly offset upward pressures on metal and chemical costs. Output charges were raised marginally and at a rate that was muted in the context of historical data.

"After a loss of momentum in fiscal year (FY) 2016, IHS Markit forecast the Indian economy to recover marginally in FY 2017, with real GDP growth expected at 7.3%."

-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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