Nikkei India Manufacturing PMI™

Indian manufacturing production and new orders expand in February

Key points:

- Output and order books rise at accelerated rates
- Companies purchase more inputs, but lower payroll numbers
- Inflation rates continue to quicken

Data collected February 10-22

February data indicated that Indian manufacturing production continued to increase, as a rebound in export demand contributed to a stronger expansion of total new orders. There was evidence of an intensification of inflationary pressures, with input costs rising at the quickest pace since August 2014 and output charge inflation climbing to a 40-month peak. Greater output needs encouraged some firms to step up buying levels, but production requirements were insufficient to generate job creation.

At 50.7 in February, up from 50.4, the seasonally adjusted ***Nikkei India Manufacturing Purchasing Managers' Index™*** (***PMI™***) – a composite indicator designed to provide a single-figure snapshot of the performance of the manufacturing economy – was above the neutral 50.0 value for the second month running and indicated that the health of the sector improved to a greater extent than in January. That said, the latest reading was much weaker than the long-run series average (54.2), largely reflecting below-trend rates of growth for output and new business.

Higher levels of manufacturing production have now been recorded for two successive months, with the sector continuing to recover from December's downturn. The upturn in output reflected improved demand from both the domestic and external markets. The total volume of incoming new work increased for the second month in a row, whereas new export orders expanded for the first time since November 2016. Rates of growth for both production and order books picked up since January, but remained marginal.

Increased new order intakes contributed to a further rise in outstanding business. Furthermore, the rate of backlog accumulation was the fastest since last October.

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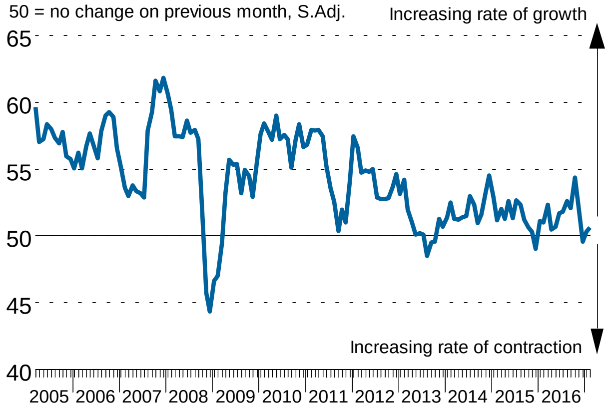

Sources: Nikkei, IHS Markit

Simultaneously, manufacturing employment declined, though the rate of job losses was marginal overall. Indeed, the vast majority of survey participants signalled unchanged payroll numbers. Evidence provided by panellists indicated that current staffing levels were sufficient to cope with existing production requirements.

Input price inflation quickened in February, with the rate of increase accelerating to the fastest in two-and-a-half years. Indian goods producers reported higher purchasing costs for metals, chemicals, energy and plastics.

Output price inflation also accelerated in February as businesses looked to protect margins in the face of rising cost burdens. The rate of charge inflation was solid and the strongest since October 2013.

Destocking continued in February, with holdings of inputs and post-production inventories both decreasing. The latter dipped for the twentieth successive month, and at the second-sharpest pace in this sequence. The contraction in stocks or purchases was only mild in comparison.

Confidence among Indian manufacturers was relatively subdued in February. Although sentiment towards the year-ahead outlook for output remained positive, the degree of optimism fell since January and was well below its near five-year historical average.

Continues…

Comment:

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

"Indian manufacturers benefited from recovering demand and raised production volumes in response to another expansion in inflows of new work. February is the second month in succession in which the health of the sector improved after the demonetisation-related contraction recorded at the end of 2016.

"However, with growth rates well below-par, the sector still has many areas to develop before it can fire on all cylinders. Businesses don't yet seem convinced as to the sustainability of the rebound as highlighted by cuts to payroll numbers and destocking initiatives. In fact, confidence towards the year-ahead outlook for production dipped since January to the second-lowest since the end of 2015.

"Of concern, higher commodity prices resulted in increased cost burdens facing manufacturers. The sharp rate of inflation seen in February was the most pronounced in two-and-a-half years and led factory charges to be raised at the quickest pace in 40 months. This is likely to cause demand from price-sensitive consumers to fall and could potentially jeopardise the economic 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.
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@ihsmarkit.com.

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