India factory activity at eight-month high in March on strong demand

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Indian manufacturing activity expanded for the third straight month in March and at the fastest pace since July, driven by stronger demand which allowed companies to raise prices, a business survey showed.

That could sway the Reserve Bank of India from cutting interest rates as expected on April 5.

The Nikkei/Markit Manufacturing Purchasing Managers' Index rose to an eight-month high of 52.4 in March from February's 51.1, its third straight month above the 50 mark that separates growth from contraction.

The findings "provide welcome reassurance that the sector has moved farther away from the flood-related contraction seen in December," said Pollyanna De Lima, an economist at Markit.

Severe rainfall and flooding caused widespread destruction in late November and early December, which constrained output to its lowest since early 2009.

The latest survey showed the new orders sub-index, a proxy for domestic demand, also rose to an eight-month high of 53.9 in March from 52.3, encouraging firms to increase output. Foreign demand also rose though at a slightly more moderate pace.

Stronger demand allowed firms to raise prices of their goods at the fastest pace in 16 months to make up for rising input costs, a trend likely to get some notice at the central bank.

Retail inflation is still running above the RBI's 5% target set for March 2017 which could impact its easing cycle.

"Inflationary pressures in manufacturing are on the upside, with cost burdens rising," said De Lima.

"This build-up in inflationary pressures may lead the Reserve Bank of India to hold off from cutting rates, especially as solid growth was seen."