India's manufacturing growth shifts up a gear: Nikkei India Manufacturing PMI

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Nikkei India Manufacturing PMI jumps to a 22-month peak in October

Supported by stronger contributions from three of its five sub-components - new orders, output and stocks of purchases - the headline seasonally adjusted Nikkei India Manufacturing Purchasing Managers IndexTM (PMITM) climbed to a 22-month peak in October. Rising from 52.1 in September to 54.4, the latest reading was indicative of a robust improvement in manufacturing business conditions that was in line with the long-run series average.

Once again, consumer goods producers outperformed their intermediate and investment goods counterparts, registering stronger rates of expansion for both output and new orders.

In October, output increased for the tenth straight month and at the quickest rate in nearly four years. Survey respondents attributed the latest rise in production to strong growth of new orders.

The amount of new work received by manufacturers grew markedly during October, with anecdotal evidence linking the latest rise to improved underlying demand. In fact, the rate of expansion was at a 22-month high. Data indicated that although foreign orders contributed to the upturn in total new work, the rate of growth in new business from abroad eased to a three-month low.

Outstanding business rose again during the latest survey period. The overall rate of accumulation was solid and the quickest in almost three years, with survey members reporting capacity pressures. In spite of this, businesses left employment unchanged.

Amid reports of orders being fulfilled directly from stocks, holdings of finished goods decreased again. That said, the rate of inventory depletion was modest and little-changed since September.

The average price of inputs rose markedly during October, with the rate of inflation quickening to the fastest since August 2014. Survey participants reported higher prices across a wide range of goods, but particularly highlighted steel, plastic and petrol.

Firms passed on to clients part of these higher cost burdens by raising their prices charged. The rate of output price inflation was the fastest in six months, but modest in the context of historical data.

Companies also attempted to offset the effects of marked input cost inflation by purchasing and storing a greater level of pre-production items. Buying levels grew at the strongest rate in 14 months, while stock levels increased at the fastest pace since July 2015.

Finally, the time taken for suppliers to deliver inputs was broadly unchanged (on average) in October.

Commenting on the Indian Manufacturing PMI survey data, Pollyanna De Lima, Economist at IHS Markit and author of the report, said, "October data provide positive news for India's economy, as manufacturing output and new orders expanded at the fastest rates in 46 and 22 months respectively.

"The sector looks to be building on the foundation of the implied pick-up in growth in the previous quarter. Supporting this was the RBI's MPC announcement of a further 25 basis-point reduction in its policy rate to 6.25%. The extended easing cycle, however, brought upside risks to inflation, with manufacturers seeing purchase costs rising at the quickest pace in over two years. Part of the increase in cost burdens was passed on to consumers by way of higher selling prices, which is likely to continue on an upward trend as we head towards the year end.

"Nevertheless, the breadth of the upturn in manufacturing should assist in its sustainability. Although the consumer goods sector again outperformed its intermediate and investment goods peers, all three sectors reported strong and accelerated growth in October. The domestic market was the prime source of new business gains, but let's not forget that there is also a robust export component in these positive numbers."