

Manufacturing PMI for July at four-month high at 51.8

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Manufacturing activities gathered pace slightly in July compared to the previous month to post a four-month high expansion on high demand from both domestic and external markets, showed widely-tracked Nikkei purchasing managers' index (PMI).

With inflationary pressures easing, the Reserve Bank of India might ease the policy rate in its upcoming policy review next week. Overall job creation was negligible even as some firms added to their work force.

PMI inched up to 51.8 points in July against 51.7 in the previous month, indicating a further improvement in overall business conditions across the sector. The reading of PMI above 50 points indicates expansion, while the one below that is contraction. The July number showed marked improvement when compared to near flat manufacturing growth in April this year, when the index had stood at 50.5 points. PMI is based on a survey of some 400 private companies.

Supported by greater demand from both the domestic and external markets, total new business rose at the fastest pace since March, said Markit Economics, the compiler of PMI.

The expansion in order books was led by consumer goods producers. Growth of new export orders climbed to a six-month high, with increases seen in the consumer and capital goods categories.

Official data also showed that merchandise exports rose 1.27 per cent in June, for the first time after 18 months of contraction. However, the index of industrial production showed that capital goods output declined for the seventh month in a row in May.

Markit Economics further said manufacturers stepped up production, with July's upturn being the most pronounced since March. The overall increase in output was led by consumer goods producers, although growth was also recorded in the intermediate goods category.

However, July data highlighted ongoing pressure on the capacity of manufacturers, as outstanding business rose for the second month in succession. Furthermore, the rate of backlog accumulation was the fastest in one-and-a-half years.

Despite this, hiring trends remained relatively muted. Only one per cent of surveyed companies took on additional workers in July, while almost all the remaining respondents signalled no change in payroll numbers.

July saw input costs rise at the slowest pace in five months. Although charge inflation accelerated, the rate of increase was only slight and remained below its long-run average.

Pollyanna De Lima, an economist at Markit and author of the report, said, "With inflation remaining lower than their respective long-run averages, it wouldn't be

surprising to see the RBI loosening monetary policy at its August meeting in an effort to encourage investment."