

HSBC India Manufacturing PMI

Free to View – Economics

A compelling growth story in one number

India

- ◆ The Manufacturing PMI index softened in December, but remains above its long-term-average
- ◆ Input prices have been softening since mid-2023, allowing producers to cut output prices while still holding on to corporate margins
- ◆ Future output expectations rose in December, pointing towards continued optimism around India's growth prospects

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HSBC India Manufacturing PMI index came in at 54.9 in December, softer than 56.0 in November, but higher than the long-term-average of 53.8. Even on a quarterly basis, the message was similar. Lower than the previous quarter, but higher than the long-term-average.

The sub-indices of Manufacturing PMI carried several messages on the state of the economy:

Gradual normalization in activity but still-strong momentum. Manufacturing output has been gradually softening since August (see chart 1). We see a similar trend in the industrial production index, and details there point to sluggish consumption, particularly in rural areas, where sowing has been weaker-than-normal due to erratic rains.

Yet, the PMI Index remains well above the long-term-average. Falling commodity prices, particularly lower oil prices through 2023, have been an important driver of growth, leading to improved corporate margins (more on this later), and higher government taxes and expenditure.

The recent fall in global oil prices (by over USD10/b in the last quarter) bodes well here. At USD76/b, oil prices remain about 10% lower than the same time last year, implying the continuation of some of the growth fillip.

An intriguing co-existence of robust corporate profits and lower core inflation. In fact, on the back of falling input prices, producers have been able to do both - cut output prices (see chart 2) while still holding on to elevated corporate profits (see chart 3).

This rare coexistence, of falling core inflation and rising GDP growth, was arguably at the heart of India's strong macroeconomic performance in 2023. By that logic, how it shapes up in 2024, will depend a lot on where commodity prices land.

Domestic demand outpacing global demand. Overall new orders have consistently been growing faster than new export orders, indicating that domestic demand is stronger than global demand (see chart 4). Worth noting that even though domestic demand has weakened since mid-2023, likely led by weak rains and below-normal crop sowing, it still remains higher than the long-term-average.

Optimism for the future is rising. Even as the current output index of Manufacturing PMI is softening, the future output index rose in December (see chart 5).

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This trend is also visible in other data we track. For instance, FDI inflows have slowed in 2023, but FDI investment intentions for the future remain buoyant, likely reflecting expectations around India's rising growth potential.

We forecast GDP to grow by 6% y-o-y in FY25, versus 6.9% in FY24. Much of this fall is likely to be led by statistical reasons, for instance normalising deflators. As such, actual growth on the ground may not soften by as much.

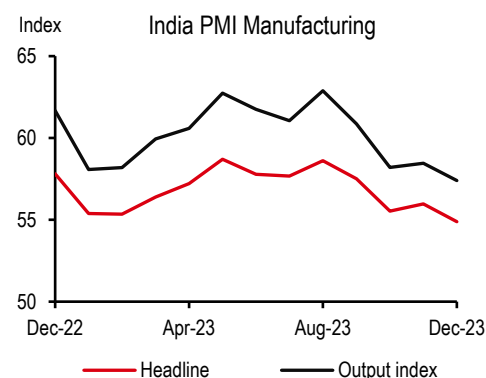
All said, falling oil prices and the structural rise in credit growth have been supportive of India's GDP growth, while weak agricultural output has been a drag. Where these variables land will likely determine the shape and size of the economy over the next year.

Table 1: Summary of HSBC India Manufacturing PMI (seasonally adjusted)

	Oct-23	Nov-23	Dec-23
PMI Index		56.0	54.9
Output			
New Orders			
New Export Orders			
Stocks of Finished Goods			
Backlogs of Work			
Employment			
Quantity of Purchases			
Stocks of Purchases			
Suppliers Delivery Times			
Input Prices			
Output Prices			
	expanding and stronger	expanding but weaker	contracting but improving

Source: S&P Global, HSBC

Chart 1: Manufacturing output has gradually softened since August



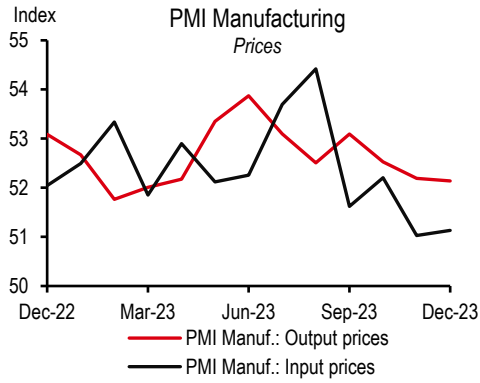
Source: S&P Global, HSBC

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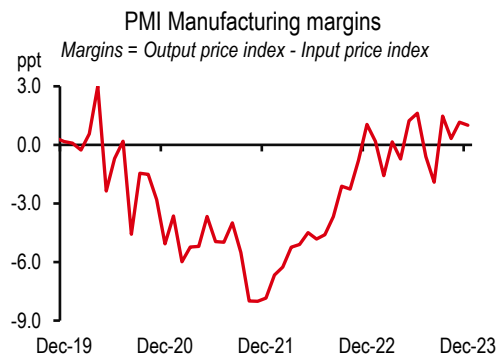
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Chart 2: Falling input prices helped producers cut output prices...



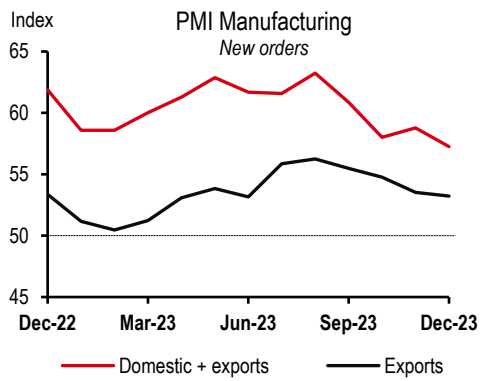
Source: S&P Global, HSBC

Chart 3: ... while still holding on to elevated corporate profits



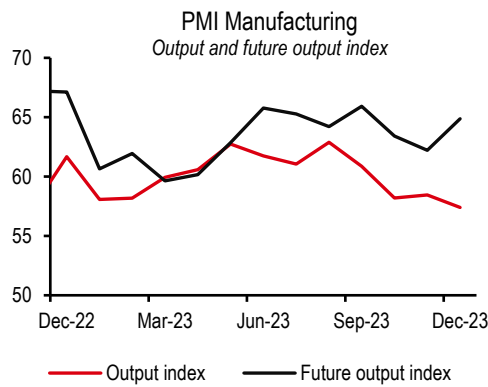
Source: S&P Global, HSBC

Chart 4: Domestic demand is stronger than global demand



Source: S&P Global, HSBC

Chart 5: The future output index is rising



Source: S&P Global, HSBC

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