‘Heatwave, polls slow factory output’

May’s HSBC India Manufacturing PMI survey suggests activity levels in the key sector decelerated to a three-month low; however, anticipating buoyancy ahead, businesses surveyed say they escalated hiring amid a sharp increase in input costs

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India’s factory activity likely slowed to a three-month low in May, with output levels easing due to a reduction in working hours amid an intense heatwave and a rise in production costs that flared up to a level only experienced once over the previous 21 months, as per the HSBC India Manufacturing Purchasing Managers’ Index (PMI) survey.

The seasonally adjusted index eased to 57.5 in May, from 58.8 in April.

Fresh orders for factories moderated to the lowest level since February, with election-related disruptions and competition affecting domestic demand, even as export orders grew at the fastest pace in more than 13 years, as per the survey findings. Despite the moderation, new orders and output rose at a substantial pace.

Retarded by heat

Factory activity likely slowed last month as an intense heatwave led to a reduction in working hours, PMI survey finds

- The seasonally adjusted index eased to 57.5 in May, from 58.8 in April
- Fresh orders moderated to lowest level since February, with poll-related disruptions and competition hitting domestic demand
- Overall input cost inflation picked up to its joint-highest since August 2022, says HSBC

While input costs and output charges headed north, producers expressed the highest level of positive sentiment towards growth prospects in almost nine-and-a-half years, partly on expectations that economic and demand conditions will remain favourable. This optimism lifted job creation in firms surveyed by S&P Global to an almost 19-year high.

‘Upbeat forecasts’

“Ongoing strong sales... combined with upbeat growth forecasts fuelled job creation in May,” HSBC said. “Manufacturing employment rose to one of the greatest extents seen since data collection started in March 2005.

“Jobs growth, parallel to rising material and freight costs, underpinned a quicker increase in input costs at goods producers. The overall rate of inflation remained below its long-run average, but picked up to its joint-highest since August 2022,” HSBC stated.

“Manufacturers were only able to pass on a part of this increase to consumers, resulting in a squeeze in manufacturing margins,” noted Maitreyi Das, global economist at HSBC.

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