

Factory activity improves as new orders, output expand



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Manufacturing PMI stood at 55.5 in December, lower than November's 10-month high of 57.6

NEW DELHI : Manufacturing activity expanded at a robust pace in December as companies boosted production, even as cost pressures and the spread of the Omicron variant of coronavirus dampened sentiments, showed a private survey.

At 55.5 in December, the IHS Markit India Manufacturing Purchasing Managers' Index (PMI) pointed to a robust improvement in overall operating conditions, though the headline figure slipped from November's 10-month high of 57.6, said a statement from market intelligence provider IHS Markit.

The statement also said the latest quarterly reading was at 56.3, its highest since the final quarter of FY21. The index is based on a survey of 400 producers and tracks new orders, output, jobs, suppliers' delivery time and stocks of purchases.

The index shows expansion at 50 or above and contraction below this mark.

The statement said that the growth of new work and production was sharp. Companies continued with their stock-building initiatives, evidenced by another robust upturn in buying levels. Business confidence strengthened, but the sentiment was again dampened by concerns surrounding supply-chain disruptions, covid-19 and inflationary pressures, it said.

Input costs rose sharply at an above-trend pace, but the rate of increase eased to a three-month low. Companies, in turn, restricted the passing on of additional cost burdens to clients, with factory gate charges increasing at the slowest pace in over a year, the statement said.

Strong demand conditions, fruitful marketing and new clients helped producers scale up orders in December. The upturn was sharp, despite being the slowest since September. Similarly, production rose at a sharp pace that was nevertheless the weakest in three months, IHS Markit said.

Pollyanna De Lima, economics associate director at IHS Markit, said the PMI results for the Indian manufacturing sector were encouraging, with the economic recovery continuing as firms were successful in securing new work from local and international sources. Higher sales underpinned a further upturn in production, and companies carried on with their restocking efforts, said Lima.

"Manufacturers were optimistic that output would continue to increase in 2022, but the business sentiment was somewhat tamed by worries surrounding the path of the pandemic, inflationary pressures, and lingering supply chain disruptions," Lima said.

Companies' spending trends were mixed, with employment falling fractionally in response to a lack of pressure on capacity, but firms purchased additional inputs amid restocking efforts. Buying levels increased substantially in December, and input inventories expanded, while holdings of finished goods continued to decline as companies fulfilled rising sales from existing stocks, said the statement.

Supply chains are still facing some bottlenecks, and vendor performance has worsened to the greatest extent since August 2020. Delays were commonly associated with raw material scarcity among distributors. Nevertheless, international demand for Indian goods continued to improve in December, and new export orders rose for the sixth month in succession, albeit only slightly, IHS Markit said.