India’s rising manufacturing sector

What is the issue?

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As per recent studies, India’s manufacturing sector seems to be getting benefitted from the ongoing US-China trade war.

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What does the recent study show?

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- Acuité Ratings’ study of India’s Manufacturing PMI for August 2018 indicates that there is optimism on new orders and a positive outlook on fresh hiring in India.
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- The index measures the overall sentiment of the manufacturing sector of an economy by incorporating views from a panel of purchasing managers.
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- A figure of over 50 in the index means that the country is witnessing business expansion.
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- It reveals that the index for India has remained over 51 for much of the last one year despite the monthly volatility that is typically seen in the PMI.
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- India has been a consistently better performer over the past few quarters, while comparing the overall Manufacturing PMI performance of both India and China.
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- India’s PMI gained almost 120 bps since last year, the Chinese PMI gained just 2 bps.
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- Also, the growth in India comes on top of a strong base of 13.5% as compared to China's 12.7% in Q1 FY18.
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- This is against the backdrop of a significant divergence since Q4 FY18 between the two nations when Chinese manufacturing growth was nearly 140 bps higher than that of India.
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What does it reveal?

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- Indian manufacturing, as per the survey and reflected in the PMI numbers, witnessed expansion in employment opportunities and new orders.
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- Both new and overseas orders have been rising continuously for tenth month in a row.
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- This reflects improving sentiments in the manufacturing sector, and even among exporters, with regard to hiring plans and business outlook.
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- It is primarily driven by the uncertainty from the US led trade wars, the consequent impact on new export orders in China and the likely benefit accruing to the Indian manufacturing exports.
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- Also, the expected US sanctions on imports from China and their impact on upcoming orders have weakened China's business outlook.
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- This apart, Chinese exporters have also witnessed intensifying cost pressures due to restructuring, environmental compliance and tighter fiscal policy.
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- The depreciation of the rupee with respect to the dollar over the last three months has also made India's exports more competitive.
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- Government is also actively working towards pushing the export promotion councils where India could have a comparative advantage.
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What are the concerns?

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- However, input cost escalation and the inflationary pressures on the Indian manufacturing sector will be particularly important.
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- Also, the current NBFC sector crisis may negate the possible gains arising as a result of US-China trade war.
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- Thus, the sustainability of this trend needs to be seen over the next few quarters.
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Source: Business Line

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