

## HSBC Russia Manufacturing PMI™

Russian manufacturing output and new orders both rose at faster rates in December

### Summary

HSBC survey data signalled that Russian manufacturers ended 2010 on a positive note, as output and new business both increased at their strongest rates since August. The seasonally adjusted HSBC Russia Manufacturing PMI™, a composite index designed to track overall business conditions, posted its largest one-month gain since September 2009 in the final month of 2010, rising from 51.1 to 53.5 in December. The latest figure signalled the strongest overall improvement in operating conditions since March 2008, and was greater than the PMI's long-run average of 52.1.

New orders received by Russian manufacturers increased at the strongest rate since August. A number of firms reported successful marketing policies during the month, and new product development. The volume of new work received from export markets increased for the first time in six months, and at the fastest rate since March 2008.

Manufacturing output in Russia increased for the seventeenth successive month in December. Moreover, the rate of expansion picked up to its highest since August, reflecting stronger gains in new orders. The volume of outstanding business continued to decline, but at the weakest rate in eight months.

December data revealed signs of capacity investment by Russian manufacturers, as stronger new order growth improved the short-term outlook for workloads. Employment in the sector rose for the seventh time in nine months, and at the fastest rate since July 2006. Meanwhile, purchasing activity by manufacturers rose at the strongest pace in four months. This contributed to pressure on suppliers and, as a result, the average time taken to deliver inputs to manufacturers in December remained among the longest indicated by the survey to date.

Average input prices increased at the fastest rate since April 2008 in December, reflecting higher demand and supply constraints. Raw materials, particularly metals and oil-based products, were highlighted as having contributed to inflationary pressure during the month. Further sharp increases in input prices led firms to hike their prices for final goods, and the rate of output price inflation was broadly similar to November's twenty-eight month high.

### Comment

Commenting on the Russia Manufacturing PMI survey, Alexander Morozov, Chief Economist (Russia and CIS) at HSBC, said:

*"Manufacturers positively surprised in December, reporting improvements on all but one of the five key indicators. Significant improvement in new orders, including new export orders, is particularly encouraging. In brief, in December the manufacturing sector faced stronger external and domestic demand and responded to it by increasing output and quantity of input purchases and decreasing inventories and backlogs of works. At the same time, rail freight capacity constraints led to longer suppliers' delivery times that may start restraining further business development."*

*"Stronger demand has boosted cost pressures to the second-highest level of the past eleven years and sustained high growth of output prices, despite still observed spare production capacity in some industries."*

*"As opposed to the historically high price environment, output growth in manufacturing remains weaker than the pre-crisis trend. Yet, we think that the recent jump in world energy prices has potential to further boost growth in the Russian manufacturing in the very short-term. In the longer-term, sustaining faster manufacturing growth would require sustaining global energy price growth."*

### Key points

- Manufacturing PMI improved to thirty-three month high of 53.5.
- New export orders rose for first time in six months.
- Sharpest rise in employment since July 2006.

### Historical Overview



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### Notes to Editors:

The HSBC Russia Manufacturing PMI is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 300 manufacturing companies. The panel is stratified by Standard Industrial Classification (SIC) group, based on industry contribution to Russian Industrial Production. Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

The Purchasing Managers' Index™ (PMI™) is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times index inverted so that it moves in a comparable direction.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact [economics@markit.com](mailto:economics@markit.com).

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