

HSBC Russia Manufacturing PMI®

Further sluggish growth of Russian manufacturing production in June

Summary

HSBC PMI® survey data compiled by Markit signalled a further lacklustre improvement in business conditions in the Russian manufacturing sector in June. Output growth remained modest, while new orders rose only marginally and firms cut staffing levels over the month.

The headline figure from the survey is the seasonally adjusted HSBC Russia Manufacturing PMI, a composite index designed to track overall business conditions and formed of five components – new orders, output, employment, suppliers' delivery times and stocks of purchases. Any figure greater than 50.0 signals improvement, below 50.0 contraction.

The PMI remained edged closer to neutrality at 50.6 in June, down from 50.7 in May. That was the lowest reading since March 2010, and well below the long-run average of 52.1.

Growth of Russian manufacturing output was maintained for the twenty-third month running in June. The rate of expansion remained weak, however, having slowed markedly from February's near three-year high.

The main factor underpinning sluggish production growth was a subdued trend in new business. Having been stagnant in May, the volume of new orders rose only marginally in June. Data signalled that demand from both domestic and export markets was weak.

The weak increase in new business in June was not sufficient to generate overall growth of the Russian manufacturing workforce. Prior to June, employment had risen for eight successive months, the longest sequence since 2007. That said, the rate of decline in headcounts in the latest period was only marginal.

Input price inflation was broadly similar to May's twenty-two month low in June, remaining weaker than the long-run survey average. That said, the rate of inflation strengthened for the first time in five months. Firms reported energy, metals and construction materials as having risen in price compared with one month earlier.

Prices charged for Russian manufactured goods rose in June, as they have throughout the past two years. The rate of factory gate price inflation slowed for the third month running, however, to the weakest since July 2010.

Comment

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

"The moderation of business activity growth in manufacturing virtually stopped in June after a few months of weak PMI releases. HSBC Russia June Manufacturing PMI indexes provides further evidence of the sector growth stabilization, with Output, New Orders, and New Export Orders indexes edging up.

Steady, albeit very moderate growth of New Export Orders is especially encouraging in this respect. It appears that global demand for manufacturing stays on the upward trend, which supports growth in the Russian manufacturing.

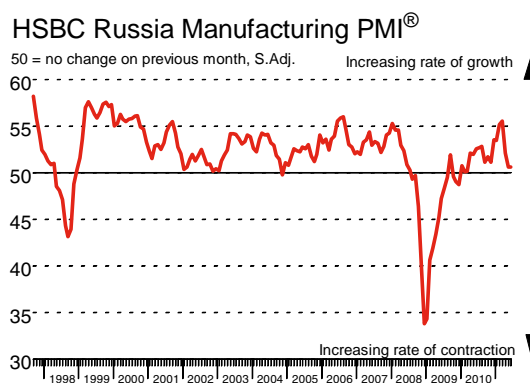
That said, there are reasons to expect manufacturing growth to ease a little bit in the coming months. Growth of new orders is weaker than output growth pointing to the likely build up of inventories. If so, companies would have to adjust output growth to milder demand growth.

Importantly, inflationary pressures in manufacturing remain high notwithstanding subdued output growth as input prices intensified their growth in June. It should sustain strong imports growth and/or keep inflation elevated."

Key points

- Manufacturing output continued to rise only modestly.
- Marginal gain in new orders.
- Fall in manufacturing employment.

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.

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