

HSBC Russia Manufacturing PMI®

Russian manufacturing business conditions deteriorate in July

Summary

HSBC PMI® survey data compiled by Markit signalled an overall deterioration in business conditions in the Russian manufacturing sector. New orders declined for the second time in three months, while output growth lost further momentum and purchasing activity fell. On the other hand, employment rose slightly following June's job shedding, and inflationary pressures remained on a downward path.

The HSBC Russia Manufacturing PMI is 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. The PMI fell for the fourth month running in July from March's 55-month high of 55.6, slipping below the no-change mark of 50.0 to 49.8. Though the latest figure indicated only a marginal overall deterioration in the business climate, it was the first sub-50.0 reading since December 2009.

The volume of incoming new work at Russian manufacturers fell in July. Though marginal overall, the rate of decline was nevertheless the fastest since May 2009. New export orders also declined in July.

Overall growth of production was maintained in July, extending the current period of expansion to 24 months. The pace of growth slowed for the fourth time in five months, however, to a marginal pace that was the weakest in the current sequence. The volume of outstanding work declined for the twenty-second successive month.

Having fallen in June for the first time in nine months, manufacturing employment rose in July. The rate of job creation was only marginal, however.

In line with the trend in new business inflows, the volume of inputs purchased by Russian manufacturers declined in July. The rate of contraction was only marginal, but marked the first reduction since August 2009. Despite this weakening in purchasing activity, suppliers' delivery times continued to increase, partly linked to transport problems.

Inflationary pressures remained much weaker in July when compared with the start of the year. Input price inflation was at the second-lowest level in 19 months, while prices charged for Russian manufactured goods rose at the weakest rate since July 2010.

Comment

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

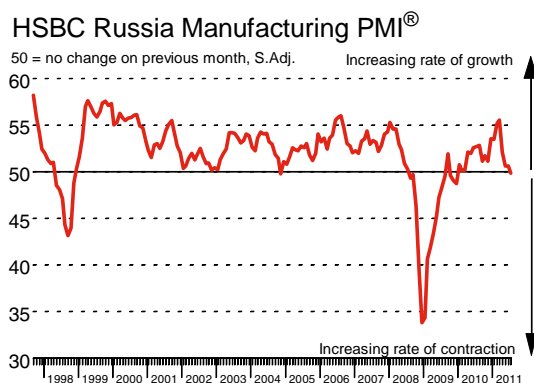
"The Russian manufacturing sector appeared to enter the summer recess in July, HSBC's Russia Manufacturing PMI release shows. While output is still growing, albeit only marginally, and the workforce is increasing again, most likely this is attributable only to a small pool of expanding sub-sectors rather than a broad-based trend in manufacturing. As far as the overall market demand for manufacturing is concerned, it has started contracting, with the New Orders Index recording its lowest reading since May 2009. Importantly, the headline PMI and New Export Orders Index are both signalling contraction as well, highlighting a broad picture of weakening demand."

"The weak Russia Manufacturing PMI reading should not really surprise after weak flash July PMI readings for China and the Eurozone released earlier. It clearly demonstrates the strong dependence of Russian manufacturing growth on the global economic cycle through Russian exports. Relying on the stabilization of global economic growth in 2H 2011 after the still-ongoing slowdown, we expect Russian manufacturers to see stronger demand down the road, which should make it possible to resume modest growth after the summer recess. Despite this, the MOED's hopes for faster manufacturing growth in 2H 2011 seem ill-grounded."

Key points

- PMI eases below 50.0, reflecting fall in new orders
- Production growth slows to marginal pace
- Output price inflation weakens to 12-month low

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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