

HSBC Russia Manufacturing PMI®

Russian manufacturing sector stagnates in August

Summary

HSBC PMI® survey data for August, compiled by Markit, signalled an ongoing stagnation in the Russian manufacturing sector in Q3. Output growth remained sluggish, as new orders declined for the third time in four months. This led to a fall in employment in the sector – the second in three months – although growth of purchasing activity resumed. Meanwhile, cost pressures at manufacturers were at their weakest for over two years.

The headline seasonally adjusted 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 remained indicative of no overall improvement in business operating conditions in August, remaining just below the no-change mark of 50.0 at 49.9.

Underpinning the overall weakness in the sector in August was a further decline in manufacturing new orders. Though marginal, the latest contraction was the third in the past four months. New export business also declined for the second month running.

Production continued to rise in August, in spite of the sustained fall in new orders. Correspondingly, backlogs of work declined for the twenty-third month in succession. The rate of output growth was weak, however, and well below the long-run survey average.

Russian manufacturers cut workforces on average in August. The rate of job shedding was modest overall, but marked the second contraction in staff levels in the last three months.

August data signalled a further moderation in input price inflation. The rate of inflation has weakened continuously since February, hitting a 25-month low in the latest period. Anecdotal evidence linked input price inflation to the weaker rouble exchange rate and higher prices for metals and fuel. Manufacturers raised their output prices for the twenty-sixth month in succession, but the rate of charge inflation eased to the weakest since November 2009.

The volume of inputs purchased rose in August, following July's decline, suggesting some firms are expecting growth of output requirements in the coming months. Suppliers' delivery times continued to lengthen, but at the weakest rate in three months.

Comment

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

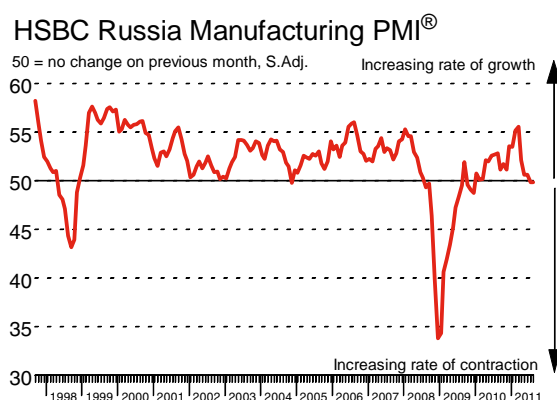
"Manufacturers retained optimism in August, increasing output despite the continuing stagnation of new orders. In particular, export demand keeps disappointing, posting a decline for the second month in a row, with some firms reporting increased competition with foreign firms. Further marked deceleration of input and output prices growth accompanied subdued output gains in manufacturing in Russia. Overall, the Russian manufacturing sector appears to be aligned with a global trend of weak manufacturing and industrial growth in recent months."

Reading the August HSBC Russia Manufacturing PMI report, optimists will point to the stabilization of output growth rates in low yet positive territory, and declining inventories. They rely on a stabilization, or moderate improvement in, global manufacturing that would sustain output growth in Russian manufacturing. Pessimists will find some analogy in the recent manufacturing PMI numbers with those of August-September 2008. The next couple of PMI releases will be the key to prove whether such analogy makes sense or not. Let us be in the optimists' camp."

Key points

- PMI at 49.9, reflecting further drop in new business
- Production growth maintains weak pace
- Input price inflation softens to 25-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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