

HSBC Russia Manufacturing PMI®

Russian manufacturing sector remains stagnant in September

Summary

HSBC PMI® survey data for September, compiled by Markit, signalled a further absence of growth in the Russian manufacturing sector in Q3. The sector has largely stalled throughout the third quarter, a marked turnaround from the sharp growth seen in Q1.

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. The PMI remained indicative of no overall improvement in business operating conditions in September, equalling the no-change mark of 50.0 following August's 49.9. On a quarterly basis, the average figure for Q3 of 49.9 was the lowest since Q4 2009, and contrasted with the post-crisis high of 54.8 registered in Q1 2011.

September's forward-looking new orders data failed to show growth. While the figures have yet to signal significant falls in new contracts at manufacturers, outright growth has only been registered once in the past five months. A key factor in the recent weakness in order books has been external demand – new export business declined for the third month running in September, despite the weakening of the rouble.

A lack of incoming new work led to a further slowdown in output growth in September. The rate of expansion was the weakest in the current sequence, stretching back to August 2009. The completion of outstanding contracts continued to support overall output growth, but the rate of decline in backlogs slowed in September to a modest pace.

Net job losses were reported in September, reflecting the current malaise in workloads. Falling employment has been registered three times in the past four months, though the latest reduction was only marginal.

Price pressures eased further in September. Input prices rose at the slowest pace since July 2009, despite the weakening of the rouble which raised the cost of imported raw materials. Output price inflation also eased during the month, to the weakest since November 2009. The rate of charge inflation has slowed continuously since March.

Comment

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

"Russian manufacturers face lasting stagnation, the HSBC Russia Manufacturing PMI survey shows. Companies have benefitted from a seasonal rise in new orders and still increase output moderately. Yet, in seasonally-adjusted terms, demand weakness has become more and more apparent, especially as far as external demand is concerned. Strong competition and demand weakness prevented most companies from raising output prices. Therefore, we expect low PPI growth in manufacturing in September."

"Details of the PMI survey reveal two different groups of companies in the Russian manufacturing. One group that likely relies on domestic demand keeps expanding. But this group seems to be getting smaller over time. Another group, represented by exporters and some domestic producers, is already seeing falling demand and has reduced output. There is a risk that this group will increase in size."

"Economic growth in OECD countries has been slowing down and the recession risk has increased. So the sustainability of external demand in Russia is predominantly based on demand growth from China and other Asian markets."

Key points

- PMI at 50.0, with virtually no improvement registered throughout Q3
- New order volumes little-changed since August
- Output price inflation slows for sixth month in a row

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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