

## HSBC Russia Manufacturing PMI®

Russian manufacturing new orders rise in October

### Summary

HSBC PMI® survey data for October, compiled by Markit, signalled a mild improvement in the manufacturing business climate at the start of Q4. This largely reflected a resumption in new business growth, albeit at a moderate pace.

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 edged up from 50.0 to 50.4 in October. This signalled the first overall improvement in business conditions in the manufacturing sector since June.

The rate of growth in new business received by Russian manufacturers was muted, and well below the survey's long-run trend. This partly reflected external weakness – new orders from export markets rose only marginally – as well as lacklustre domestic demand.

Manufacturing production in Russia rose for the twenty-seventh month running in October, supported by the resumption in new order growth. In line with the trend shown throughout the third quarter, however, the rate of expansion in output was weak.

The clearance of existing workloads continued to support output growth in October. Backlogs of work declined at the fastest rate since June. This apparent lack of pressure on capacity influenced firms' hiring decisions, as employment across the sector declined for the third month running.

Cost pressures faced by Russian manufacturers strengthened in October. The rate of input price inflation accelerated to its fastest since July, partly linked by panellists to the effect of rouble weakness on import prices. That said, input cost inflation remained below the historic average for the survey, reflecting relatively muted demand for manufacturing inputs in recent months. Meanwhile, prices charged for Russian manufactured goods rose at the slowest rate in 27 months during October, reflecting the recent flat trend in demand.

### Comment

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

*"Russian manufacturers felt some relief of their concerns in October, the HSBC Russia Manufacturing PMI showed. Both new export orders and total new orders have increased, paving the way for marginally faster output growth. The headline PMI indicator has returned to growth territory after a pause taken in 3Q.*

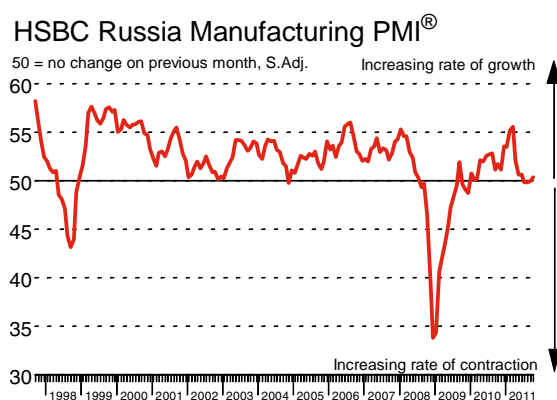
*Yet, the improvement in growth momentum appears very modest, and fragile when taking into account the uncertain global economic environment. Scaling down their future output growth expectations, Russian manufacturers reduced headcounts at the fastest rate since 1Q 2010 in October. As a reflection of stretched demand conditions, companies had to accommodate faster growth of input costs, being unable to increase output prices. Charges grew at the slowest rate for more than two years in October.*

*The bottom line is this: while recession in the Russian manufacturing sector looks remote, stagnation or anaemic growth represents the most likely scenario for the coming months. We have to be prepared for more disappointing industrial production data releases in 4Q than in September."*

### Key points

- First increase in new work since June helps generate overall improvement in business conditions...
- ...but output growth remains marginal
- Manufacturing employment falls for third month running

### 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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*Purchasing Managers' Index*<sup>TM</sup> (*PMI*<sup>®</sup>) surveys are now available for 32 countries and also for key regions including the Eurozone. They are the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to [www.markit.com/economics](http://www.markit.com/economics).

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