

HSBC Russia Manufacturing PMI®

Manufacturing business climate remains muted in February

Summary

The Russian manufacturing sector failed to regain momentum mid-way through the first quarter of 2012, according to the latest HSBC PMI® data compiled by Markit. Weak growth rates were registered for output, employment and purchases, while new export orders continued to fall. On the price front, input cost inflation slowed sharply, while manufacturers held their own prices broadly constant.

The headline HSBC Purchasing Managers' Index™ (PMI) is a composite indicator designed to give a single-figure snapshot of operating conditions in the manufacturing economy. At 50.7, little-changed from January's 50.8, the PMI signalled only a slight overall improvement in business conditions in February. It was the fifth-successive reading above neutrality, but the PMI remained below its long-run average of 52.1.

New orders received by Russian goods producers rose for the fifth month running in February. The pace of expansion improved slightly from January, but remained weak compared with the long-run survey average. Also, new contracts from export markets fell for the third month running.

Higher new business and cuts to backlogs sustained output expansion in February. The current run of production growth now stretches to 31 months, but the rate of growth remained marginal in the latest period. The volume of outstanding business declined for the twenty-ninth consecutive month.

Purchases rose at a fractional pace in February, and input volumes overall have been broadly flat on average in 2012 so far. Weak demand for raw materials and other inputs was partly reflected in a sharp easing in the rate of input cost inflation in the latest period. The rate at which average input prices increased was the weakest since June 2009, and one of the slowest in the survey history. Only 18% of firms reported higher input costs during the month.

Output prices charged by Russian goods producers were flat in February. This marked the first period when tariffs had not risen since June 2009. About 84% of firms reported holding output prices constant since January, citing competitive pressures.

Russian manufacturers expanded workforces on average in February, taking the current run of job creation to four months. That said, the pace of growth was the slowest in this sequence and only marginal, underlining the fragile nature of the current phase of demand growth in the sector.

Comment

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

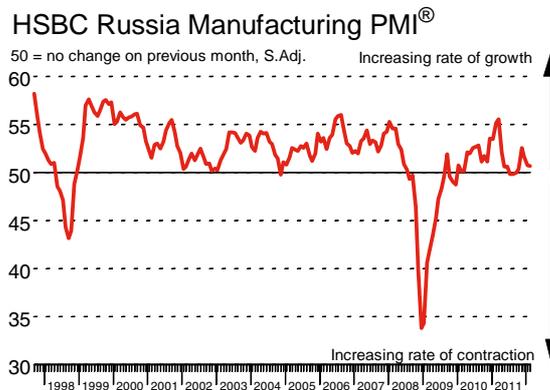
"A moderation of hiring growth and a faster decline in stocks of input purchases in February have prompted the Russian manufacturing sector to continue gradually losing growth momentum, in spite of a slightly faster increase in new orders. New export orders have contracted for the third month, in a sequence which points to downside rather than upside risks for output growth in manufacturing in the coming months. New orders less inventories recorded the lowest reading in five months in February, which is another signal of cooling down in manufacturing. Indeed, if growing demand can largely be satisfied with inventories, it is unlikely that manufacturers will be expanding output strongly. In line with the weak business activity PMI indicators, cost pressures have eased substantially in February to a multi-month low, and output prices have not increased for the first time since June 2009.

"All in all, we observe a picture of moderate and gradually easing growth in Russian manufacturing alongside subdued inflationary pressures. Politicians call this stability, but economists are tempted to call this stagnation."

Key points

- PMI little-changed at 50.7
- Lacklustre growth of output, new orders and jobs
- Input price inflation at 32-month low

Historical Overview



Sources: Markit, HSBC.

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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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