

HSBC Russia Manufacturing PMI®

Russian manufacturing sector remains on weak growth path in March

Summary

The Russian manufacturing sector registered another sub-par performance in March, according to the latest HSBC PMI® data compiled by Markit. Output and new orders rose since February, but the rates of expansion were modest in both cases. Moreover, goods producers cut workforces on average for the first time in five months.

The HSBC *Purchasing Managers' Index*™ (PMI) – a composite indicator designed to give a single-figure snapshot of operating conditions in the manufacturing economy – remained above 50.0 for the sixth month running in March, signalling an overall improvement in business conditions. However, at 50.8, little-changed from 50.7, the latest figure signalled only a marginal improvement. The Index remained below its long-run trend level of 52.1.

Central to the relatively subdued performance of the sector in March was only a modest rise in new order volumes. The current sequence of new business growth now stretches to six months, but the pace of expansion over this period has been lacklustre. New export orders rose for the first time in four months, but at only a marginal rate.

Growth of new work was largely sufficient to sustain output growth in March. Production has risen every month since August 2009, though the rate of expansion in 2012 so far has been muted. Moreover, backlogs of work continued to fall in March, suggesting a lack of pressure on capacity.

The relatively weak increase in business requirements at Russian manufacturers was reflected in a modest fall in employment in the sector in March. This followed a four-month period of job creation.

Stocks of both inputs and post-production goods continued to decline on average in March. A slightly faster contraction in finished goods stocks contrasted with a weaker reduction in input stocks, which partly reflected the strongest rise in purchasing activity for four months.

Input price inflation strengthened from February's 32-month low in the latest period. That said, the rate of inflation remained weak in the context of historic survey data, and was still the second-lowest since June 2009.

Prices charged by Russian manufacturers rose in March, having been largely flat in the previous month. But the rate of output price inflation was modest, reflecting both tough trading conditions and subdued pressure on firms' input costs.

Comment

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

"Growth momentum in manufacturing remained subdued despite somewhat faster output growth in March, the HSBC Russia Manufacturing PMI says. New export orders surprised positively this time, resuming a sluggish growth. Anecdotal evidence points to growth of consumer demand in neighbouring CIS countries as the driver for that. At the same time, overall growth of new orders has eased and manufacturers surprisingly reduced staffing in March. These mixed PMI data signals can probably be reconciled in the following way. First, weaker new order dynamics makes manufacturers less optimistic regarding future output growth and prompts them to cut staffing. This is the negative news. Yet, if growth of export orders continues in the coming months, this would prompt stronger growth of domestic orders as well, with some time lag. This is the positive news. So, the current trends in Russian manufacturing looks quite unstable; slow output growth with the prevalence of downside risks remains the most likely scenario for the near-term."

"Some intensification of inflationary pressures in manufacturing does not appear worrisome in a weak demand growth environment, and in the overall tighter monetary conditions. In other words, manufacturing does not appear to be the sector that carries the risks of significant inflation acceleration."

Key points

- Moderate increase in output reflects lacklustre new business expansion
- Employment falls for first time in five months
- Input price inflation remains relatively subdued

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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