

HSBC Russia Manufacturing PMI®

Russian manufacturing new order growth accelerates in May

Summary

The Russian manufacturing sector gained further growth momentum in May, according to the latest HSBC PMI® data compiled by Markit. Central to the improved performance of the sector was sharper growth of new business, the fastest for over a year. This helped sustain higher output and employment, while inflationary pressures remained relatively weak.

The survey's headline figure is the HSBC Purchasing Managers' Index™ (PMI) – a composite indicator designed to give a single-figure snapshot of operating conditions in the manufacturing economy. The PMI remained above 50.0 for the eighth month running in May, signalling an overall improvement in business conditions in the Russian goods-producing sector. Moreover, the Index rose to 53.2, the highest reading since March 2011. The PMI was greater than its long-run trend level of 52.1 during the month.

The volume of new orders received by Russian manufacturers rose for the eighth successive month in May. Moreover, the rate of expansion was the fastest since March 2011, and slightly sharper than the long-run average. Export growth supported the overall rise in new business for the third month running, with the rate of expansion in new export orders the fastest since last November.

Manufacturing output in Russia increased for the thirty-fourth successive month in May. The rate of expansion eased from April's 13-month peak, but was solid nonetheless.

The robust gain in new work mid-way through the second quarter generated higher employment and purchasing activity. Workforces expanded on average for the second month running, and at the fastest rate since March 2011. Input buying increased for the fourth successive month.

Inflationary pressures remained subdued in May. The rate at which firms' input prices increased was the second-weakest since June 2009, and much lower than the long-run survey average. Where input prices rose, this was partly linked to the weaker rouble, alongside higher energy and fuel costs.

Pricing power in the Russian goods-producing sector remained weak in May. The rate of output price inflation was well below the long-run survey average, and less than 7% of firms reported higher charges than one month previously.

Comment

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

"Growth momentum intensified to its highest for over a year in May, the HSBC Russia Manufacturing PMI revealed. The most amazing thing is that both domestic and export demand kept strengthening. How come that these strong PMI results appear to be at odds with the rather weak official Russian IP data and PMI/IP data coming from many other countries? The PMI survey respondents reported the strongest economic activity in consumer goods. This is fully in line with the official data showing strong growth of retail sales and banks' lending to households. At the same time, the PMI survey results representing intermediate and investment goods are more aligned with the weaker IP trend that is biased towards heavier industries. Plus, as opposed to the headline PMI index, the Output PMI index declined in May, pointing to slower output growth, and this result is also more aligned with the official IP dynamics. Besides, state procurement of goods in Russia has become more frontloaded than before this year. As a result, the state-driven domestic new orders should be growing stronger than usually during this part of the year."

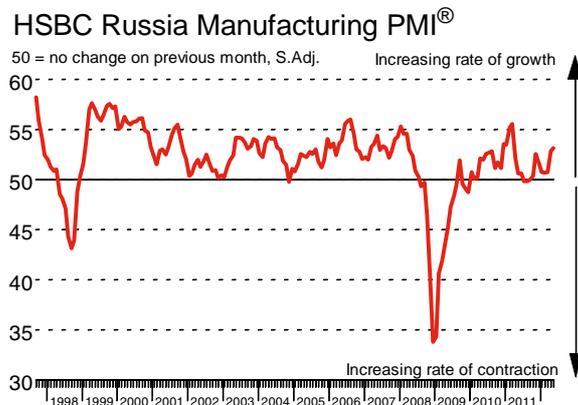
"With respect to stronger export demand growth, we think that Russian exporters could be grabbing a bigger market share at the expense of competitors from other countries. Indeed, a large share of commodities in Russia's export structure, in an environment of overall weak global commodity markets, leaves little room for alternative explanations."

"In any case, the recent robust manufacturing PMI data on Russia can hardly be interpreted as evidence of a true decoupling from global economic trends."

Key points

- New business expansion fastest since March 2011
- Growth of output and employment maintained
- Input price inflation at second-lowest level in nearly three years

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 electronics@markit.com.

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