

HSBC Russia Manufacturing PMI®

Russian manufacturing expansion loses momentum in June

Summary

The Russian manufacturing sector ended the second quarter of 2012 on a weak note, according to the latest HSBC PMI® data compiled by Markit. New orders and production both rose more slowly, while firms shed staff on average. A fourth successive monthly rise in new export orders was a positive outcome, while inflationary pressures continued to soften.

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. Readings above 50.0 indicate an overall improvement in business conditions, below 50.0 an overall deterioration.

The PMI remained above 50.0 for the ninth month running in June, signalling an overall improvement in business conditions in the Russian goods-producing sector. On a quarterly basis, over Q2 the PMI registered its highest level since Q1 2011 (52.3). However, the Index declined from 53.2 in May to 51.0, indicating only a modest rate of improvement. The month-on-month fall in the PMI was one of the steepest in the past three-and-a-half years.

New orders rose for the ninth month running in June, but at the weakest rate since March. External demand supported overall growth, as new export business increased modestly for the fourth consecutive month. That was the joint-longest sequence of export growth in four years.

Production growth was maintained in June, stretching the current period of expansion to nearly three years. That said, the rate of growth was the slowest in four months, and weak in the context of historic survey data.

Backlogs of work continued to fall in June, and the rate of decline accelerated to the fastest in three months. Reflecting this lack of pressure on capacity, firms cut employment marginally following two months of solid job creation.

Manufacturers in Russia continued to increase their purchasing of inputs in June. The rate of growth was unchanged from May's moderate pace, however, and stocks of purchases fell at the fastest pace in four months.

The latest survey highlighted a further slackening of inflationary pressures. The rate of input cost inflation slowed for the third month running, to the weakest in the current 41-month period of rising prices. Meanwhile, factory gate prices increased only modestly.

Comment

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

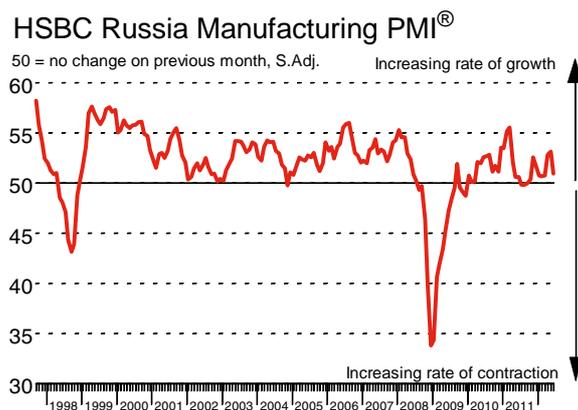
"Business activity in manufacturing cooled off in June after two months of robust expansion, the HSBC Russia Manufacturing PMI showed. The good news is that both new orders and output kept growing, but companies reduced both staff levels and stocks of inputs in June. We think they did so in anticipation of weaker demand growth in the coming months. The faster than usual contraction in stocks of finished goods supports the view that weaker business expectations stand behind subdued growth momentum at this point. This is quite rational behaviour given the emerging new signs of weakness in the European and global economies and a fall of oil prices. Yet, so far the Russian manufacturing sector has just returned to a crawly growth trend that prevailed since May 2011.

"Lower commodity prices have substantially reduced cost pressures on manufacturers despite the weaker currency. Notwithstanding that, the growth rate of output prices edged up in June. In our opinion, this signals much about compressed profit margins and the still-comfortable demand level."

Key points

- Weaker growth of output and new orders
- Marginal drop in employment
- Input price inflation at lowest level in nearly three-and-a-half 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 economics@markit.com.

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