HSBC Purchasing Managers' Index™ Press Release

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HSBC Russia Manufacturing PMI®

Russian manufacturing business conditions remain subdued

Summary

The Russian manufacturing sector remained on a weak growth trajectory in July, despite registering a slight improvement since the previous month. The latest HSBC PMI[®] data compiled by Markit showed faster increases in new orders and production, but growth rates remained slower than the long-run survey trends. The level of employment stabilised following June's marginal fall, while inflationary pressures remained relatively weak.

The survey's headline figure is the HSBC Purchasing Managers' IndexTM (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 tenth month running in July, signalling an overall improvement in business conditions. The PMI improved from 51.0 in June to 52.0, above the average for the current growth sequence but weaker than the trend for Q2 (52.3).

New business rose in July, continuing the trend observed since October 2011. The rate of growth picked up since June and was greater than the average over the current sequence, but still weak when compared with before the financial crisis. New export orders rose for the fifth successive month – the longest sequence in over four years – but the pace of expansion was only marginal.

Higher new orders led to a further rise in manufacturing output in July. The current growth sequence now stretches to three years, and the rate of expansion strengthened on the month for the first time since April. That said, output growth remained weak in the context of historic survey data. Production was again supported by the completion of outstanding business, as backlogs of work declined for the thirty-fourth successive month.

The lack of pressure on capacity was highlighted by a flat trend in manufacturing employment. The level of staff employed was unchanged from June, after having increased moderately in April and May.

Cost pressures facing Russian manufacturers strengthened from June's 41-month low, in part reflecting higher energy prices. However, the rate of input cost inflation remained much weaker than the long-run survey average. A similar pattern was evident for output prices, where the rate of inflation quickened slightly, but remained moderate overall.

Comment

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

"Some improvement of growth momentum in the Russian manufacturing sector in July is positive news, which contrasts to weak PMI readings for many other countries. Yet, the details of the HSBC Russia Manufacturing PMI[®] survey show a mixed picture across different sectors. The consumer goods sector benefited from strong demand, increasing both output and employment. At the same time, the intermediate goods sector suffered from weaker domestic demand, reducing both output and payrolls. Lacklustre growth of new export orders failed to provide strong support to this sector.

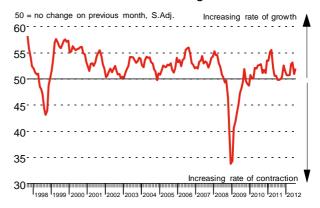
"It follows from the survey that Russian manufacturing appears to be capable of sustaining low yet positive growth, with the reliance on primarily domestic sources. However, the likely moderation of private consumption growth on the back of faster inflation and lower oil prices could push manufacturing growth further down in the coming months. Manufacturers prepare for hard times in advance, and the fastest rate of inventory reduction since October 2009 signals that they are already adjusting output levels to a potential weakening of demand."

Key points

- Growth of both output and new orders remain lacklustre
- Exports register only marginal expansion
- Employment unchanged since June

Historical Overview

HSBC Russia Manufacturing PMI®



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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