

# HSBC Russia Manufacturing PMI®

## Modest improvement in manufacturing business conditions signalled in August

### Summary

Business conditions facing Russian manufacturers improved only modestly in August. The latest HSBC PMI® data compiled by Markit showed only a marginal increase in incoming new work, and little change in manufacturing employment. Output growth was maintained at July's solid pace, but was supported mainly through the completion of backlogs.

The HSBC Purchasing Managers' Index™ (PMI) – a composite indicator designed to give a single-figure snapshot of operating conditions in the manufacturing economy – remained in positive territory for the eleventh month running in August, signalling an overall improvement in business conditions in the Russian goods-producing sector. But the Index fell from 52.0 to 51.0, signalling a more muted performance than in July.

The downward movement in the PMI mainly reflected a weaker contribution from the new orders component. Growth of new business was maintained for the eleventh month running, but the rate of expansion slowed to a marginal pace. This partly reflected a fall in new export orders, the first since February.

Goods production in Russia increased in August. Growth has been registered every month since August 2009, and the increase in the latest period was slightly stronger than the average over that sequence. That said, it remained weaker than the long-run survey trend.

With new orders rising only marginally in August, manufacturers supported output mainly through the clearance of backlogs. The volume of outstanding work in the sector has fallen every month since October 2009.

Russian manufacturers barely raised headcounts during the latest survey period. Staffing in the sector rose at a fractional pace, following no change during the previous month.

Purchasing activity rose in August. The rate of growth moderated, however, and was weak in the context of historic survey data. Pre-production stocks declined at the fastest rate in a year.

Input price inflation strengthened for the second month running in August, linked by survey respondents to higher costs for utilities and fuel. The rate of inflation was the sharpest since October 2011, but remained well below the long-run survey average.

Pricing power in the manufacturing sector remained muted in August, reflecting lacklustre business conditions. Output prices rose for the sixth month running, but at a weak rate.

### Comment

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

*"Unfortunately, our cautious perception of the robust HSBC Russia Manufacturing PMI print in July proved to be justified: the August PMI survey signalled the sector's return to a slow growth trend. Admittedly, the Output Index remained robust, exceeding its average since 2010. Apparently, June's precautionary de-stocking has helped manufacturers to maintain output growth later in the summer."*

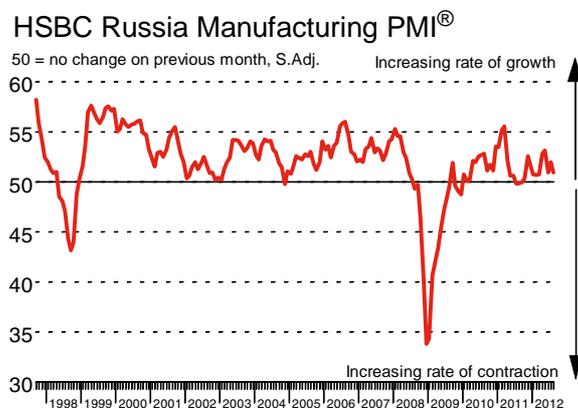
*"Yet, forward-looking indicators such as the New Orders Index and the New Export Orders Index saw a major setback in August. The latter Index pointed to a marked contraction of foreign demand following a five-month period of expansion. Importantly, the consumer goods sector underperformed the two other sectors in August, signalling weakening consumption growth momentum. This is negative news since private consumption has been key to economic growth in Russia recently. Besides, companies must have faced a stronger profit squeeze in August, being unable to increase their output prices despite a faster rise in costs. If so, this would limit their resources for investment into production expansion."*

*"We conclude from the survey results that output growth in Russian manufacturing will likely moderate and become subdued in the coming months. Yet, the low base of 3Q 2011 should allow industrial production growth to stay above 3% y-o-y in 3Q 2012."*

### Key points

- Fractional increase in new orders
- Output growth unchanged since July
- Input price inflation strengthens to ten-month high

### 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](mailto:economics@markit.com).

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*Purchasing Managers' Index™ (PMI®)* surveys are now available for 32 countries and also for key regions including the Eurozone. They are the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to [www.markit.com/economics](http://www.markit.com/economics)

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