# **HSBC Purchasing Managers' Index™ Press Release**

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# HSBC Russia Manufacturing PMI®

# Manufacturers see strongest rise in new orders in over a year-and-a-half

#### **Summary**

Russian manufacturing started the final quarter of 2012 on a bright note. The latest HSBC PMI® data compiled by Markit signalled a further strengthening of business conditions, as new orders and output both increased at the fastest rates in over a year-and-a-half. Less positive survey findings included a dip in export demand and only a marginal gain in manufacturing employment. Inflationary pressures eased during the month and remained much weaker than the long-run survey trend.

The HSBC Russia Manufacturing PMI rose for the second month running in October, posting 52.9. That signalled the best overall operating conditions faced by Russian goods producers in five months, and was greater than the long-run survey average of 52.1. The rise in the PMI reflected stronger growth of both output and new orders, and was tempered by a slower rate of job creation. The headline index has now remained above the no-change mark of 50.0 for the past 13 months.

Driving the strengthening in overall business conditions in October was a faster increase in new business inflows. The volume of new work received rose for the thirteenth successive month, and at the sharpest pace since March 2011. This was despite a slight fall in new export orders, the second contraction of the past three months.

Production growth accelerated to a 19-month high in October. Output was supported both through the intake of new orders and the completion of existing workloads. Backlogs continued to fall overall, albeit at the slowest rate in five months.

Russian manufacturers raised headcounts for the third month running in October, mainly to accommodate increased receipts of new work. That said, the rate of job creation in the sector slowest to only a marginal page.

Purchasing activity by goods producers in Russia rose in October, extending the current sequence of expansion to nine months. The rate of growth was the strongest since July, and faster than the long-run survey average. Despite this, stocks of inputs continued to fall, and at a sharp rate.

Input prices continued to rise in October, but at a much slower pace than in the previous month. Input price inflation also remained much weaker than the long-run survey trend. Similarly, the rate of output price inflation eased on the month, and was weak in the context of historic survey data.

#### Comment

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

"Russian manufacturing capitalized on its September's activity gains, signalling stronger growth momentum in October, the HSBC Russia Manufacturing PMI survey revealed. Both output and new orders saw marked improvements from the previous month. At the same time, cost and inflationary pressures in manufacturing have eased, which is uncommon when output growth accelerates. Lower global energy prices must be accountable for that, we think. A renewed minor contraction of new export orders was the only disappointment in the survey results.

"So, domestic demand rules, once again shielding Russia from the headwinds blowing from the struggling Eurozone economy. Indeed, despite the ongoing inflation acceleration, private consumption growth remains robust, spurring production of consumer goods and supporting the overall stronger growth momentum in Russian manufacturing. All these promise an upside surprise when Rosstat releases October IP data next month. A couple of extra working days in October should also help in this respect. Our only concern is that producers might be confusing a genuine pickup in demand for their goods with the rise in inflationary expectations that can boost demand only temporarily.

"In our opinion, the PMI survey casts away the worries about negative implications of higher nominal interest rates on the real economy. In real terms (i.e. after adjustment for inflation), the policy repo rates and money market rates remain negative and are either neutral or growth-stimulating."

## **Key points**

- Growth rates of new business and output both at 19-month highs
- Weaker rise in average input prices
- Employment growth slows to marginal pace

# **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<sup>TM</sup> (PMI*<sup>®</sup>) 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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