HSBC Purchasing Managers' Index™ Press Release

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HSBC Russia Manufacturing PMI®

Russian manufacturing sector close to stagnation in May

Key points

- Output growth slows to negligible pace, despite rise in new orders
- Inflationary pressures remain muted
- Jobs cut for seventh successive month

Summary

Business conditions in the Russian manufacturing sector barely improved mid-way through the second quarter, HSBC PMI® data compiled by Markit showed. Although new orders continued to rise and export demand stabilised, output growth slowed to a fractional rate and firms cut staff for the seventh month in a row. Input buying was broadly unchanged from one month previously, while a rise in final goods stocks was registered for the first time since May 2011. Meanwhile, inflationary pressures remained subdued.

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 in May but slid further towards the neutral threshold, registering 50.4, from 50.6 in April. That was the third successive month-on-month decline in the Index, signalling a loss of growth momentum in the Russian manufacturing sector.

The main positive finding from the latest survey was a rise in new business received by Russian manufacturers, extending the current sequence of expansion to 20 months. There was a stabilisation in export demand in the latest period, although the overall rise in new work was the slowest in nine months, and still weak in the context of historic survey data.

Although new business growth was maintained in May, output levels rose only fractionally and at the weakest pace in the current 46-month sequence of expansion.

Russian manufacturing employment declined for the seventh month running in May, but the rate of reduction was only moderate. Declining employment partly reflected spare capacity in the sector, as signalled by a third successive monthly drop in backlogs of work.

Average input prices paid by Russian manufacturers rose in May at the strongest pace in 2013 so far, but the rate of inflation remained much weaker than the long-run survey trend. Where input prices rose, this was linked to higher energy and transport costs. Output prices rose marginally in May, reversing April's slight reduction.

Comment

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

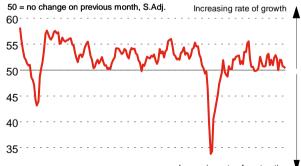
"Manufacturing has continued gradually losing growth momentum, the May HSBC Russia Manufacturing PMI survey showed. As before, the positive gap between new orders growth and output growth remained in place. Intakes of new orders were getting weaker laying down the ground for preservation of conservative business expectations and restrained output growth. Stocks of finished goods rose for the first time since May 2011 while employment kept decreasing. At the same time, new export orders have surprised on the upside recording a positive growth monthon-month. Structurally, growth engines have switched their gears to investment goods from consumer goods, with intermediary goods sector revealing multiple signs of weakness.

"Overall, the PMI survey's results are rather conflicting and concealing the prevailing trend, we think. In this respect, the observed recovery in the investment goods sector and new export orders is a source of some optimism regarding manufacturing performance in the coming months. Indeed, if investment and consumer goods sectors continue growing, the intermediary goods sector would likely improve its performance too. Besides, we have to note that unusually long public holidays in May this year might have negative implications on key PMI indexes.

"In any case manufacturing kept expanding arguing against the immediate use of monetary policy for stimulation of economic activity growth."

Historical Overview

HSBC Russia Manufacturing PMI®



Increasing rate of contraction 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 Sources: HSBC, Markit.





For further information, please contact:

HSBC

Julia Molchanova, Corporate Communications Telephone + 7 495 721 1515 Email julia.molchanova@hsbc.com

Markit

Trevor Balchin, Senior Economist Telephone +44-1491-461-065 Email trevor balchin@markit.com Caroline Lumley, Corporate Communications Telephone +44-20-7260-2047 Mobile +44-7815-812-162 Email caroline.lumley@markit.com

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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