HSBC Purchasing Managers' Index™ Press Release
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compiled by markit

HSBC Russia Manufacturing PMI®

Output growth resumes in August, but at weak rate

Key points

- Modest rise in new work driven by domestic market as exports stagnate
- Fastest drop in employment in four years
- Headline PMI remains below 50.0 for second month running

Summary

The downturn in overall conditions in Russia's manufacturing economy continued in August despite a pick-up in output, HSBC PMI® data compiled by Markit showed. New orders rose modestly, but new export orders stagnated and employment in the sector declined at the fastest rate in four years.

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. The PMI remained below neutrality in August, rising fractionally from 49.2 to 49.4. This signalled a further marginal overall deterioration in business conditions in the Russian goods-producing sector.

The volume of new orders rose slightly in August, driven by the domestic market. That followed a stagnation in July, although growth was muted. This partly reflected a broadly flat trend in new export.

The weak rise in new orders generated a marginal increase in output. That followed a modest decline the previous month which was the first contraction in four years. Data signalled that the consumer goods sector drove the overall increase.

Backlogs of work declined for the sixth consecutive month in August, highlighting a lack of pressure on manufacturing capacity. Moreover, the rate of contraction was the fastest since September 2012.

With backlogs falling sharply amid weak new order growth, manufacturers in Russia cut their workforce numbers for the ninth time in ten months. The rate of job shedding accelerated to the fastest in four years. Meanwhile, growth of input purchasing resumed following July's decline.

Input price inflation accelerated slightly in August, continuing the trend shown since March. Firms reported higher prices for imported items alongside upward pressure on energy, utility and fuel costs. That said, the rate of input cost inflation remained historically weak. Meanwhile, prices charged for final manufactured goods continued to rise at a moderate rate.

Comment

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

"Economic activity in manufacturing improved marginally in August although headline data remained below the 50-point waterline mark, the HSBC Russia Manufacturing PMI survey found. Importantly, both new orders and output have resumed growth, while new export orders remain virtually flat. At the same time, producers have further intensified staff reductions. It follows from the survey that it is the weakness in the Employment and Stocks of Purchases Indexes that played the pivotal negative role for the headline PMI. In this respect, positive growth numbers on demand and output are more important as lead indicators for future manufacturing performance due to their forward-looking qualities. A first decline in inventories in four months registered in August is also encouraging. Structurally, the consumer goods industry reported the strongest economic activity data, while intermediate and investment goods producers reported either flat or negative data on most economic activity indicators. This confirms that the consumer goods sector keeps driving overall manufacturing growth.

"Overall, the PMI survey downplays the contraction concerns in manufacturing, which is good news taken in the context of very weak economic activity data in July. A crawling-style shaky growth seems to be the most plausible scenario for Russian manufacturing looking forward, we think, although there are also moderate risks of stagnation. Cost-push inflation intensified in August, getting impetus from the weaker currency. Yet weak demand still does not allow manufacturers to pass rising costs on to customers, with factory prices rising only moderately. Intensified labour shedding should also prevent a faster price rise in the consumer goods sector.

"Being marginally better than in July, the August HSBC Russia Manufacturing PMI survey still supports monetary policy easing, with output growth in manufacturing remaining below potential and upside risks to inflation staying muted."

Historical Overview

Sources: HSBC, Markit.

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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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