

HSBC Russia Manufacturing PMI®

Output growth strengthens to 12-month high

Summary

The Russian manufacturing sector registered improving business conditions in October driven by a resurgence in domestic demand, PMI® data from HSBC showed. The volume of new orders rose at the fastest rate in eight months, leading to the strongest growth of output in a year. Weak export inflows continued to weigh on the sector, however, contracting at the fastest rate in over four years. Manufacturers also continued to cut workforces on average, and their pricing power remained weak.

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 rose above the no-change mark of 50.0 in October, having spent the entire third quarter in negative territory. The latest figure of 51.8 was slightly below the survey's long-run average of 52.0, and indicative of a moderate overall improvement in business conditions. Moreover, the one-month gain in the PMI was the joint-fourth highest since the survey began in September 1997.

Having slowed to a marginal pace in September, the rate of expansion in Russian manufacturing new orders accelerated sharply to an eight-month high in October. This was largely driven by domestic demand, as new export business fell for the second month running and at the fastest rate since August 2009. The overall rate of growth in total new work was broadly in line with the survey's long-run average in the latest period.

The rebound in new orders led to a stronger increase in output in October. Production rose at the fastest pace in 12 months, following only marginal growth in August and September. The rate of expansion was also faster than the long-run survey average.

The volume of outstanding work continued to decline in October, in a sign of ongoing spare capacity. Reflecting this, manufacturers cut headcounts on average for the fourth month in a row, albeit at the weakest rate over this sequence. Meanwhile, purchasing activity rose at a stronger rate in response to increased output requirements.

Input price inflation eased for the first time in eight months in October, and remained historically weak. The ability of manufacturers to raise their own prices was also limited, as output prices rose on average at the slowest rate in five months.

Key points

- Faster expansion in production driven by rebound in domestic new orders
- New export business declines at fastest rate in over four years
- Overall business conditions improve for first time in four months

Comment

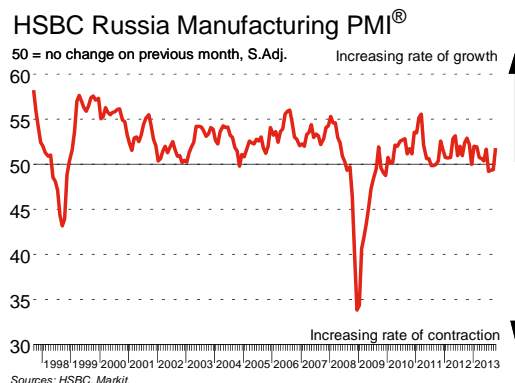
Commenting on the Russia Manufacturing PMI® survey, Alexander Morozov, Chief Economist (Russia and CIS) at HSBC, said:

"Manufacturing experienced a sharp rebound in October, the HSBC Russia Manufacturing PMI survey found. Both output and new orders recorded fast growth acceleration, accompanied by improvements in input purchasing activity and the resumption of restocking on stronger demand. The PMI details revealed that the investment good sector was the key driver of the overall improvement in growth momentum in manufacturing. Importantly, despite stronger demand producers eased the pace of their output prices growth trying to cut costs instead. This may explain the observed pick-up in investment demand is also driven by the efficiency reasons, rather than by an increase in state procurement and procurement of large state companies that may prove to be temporary. The sustainability of the achieved positive PMI results will largely depend on an answer to this question, we think.

"Besides, the PMI survey contains a dark spot that makes us cautious about extrapolating good October results for the near future. New export orders fell at a rate last seen in mid-2009. This mostly affected intermediary goods producers. So, the observed improvement in global economic growth conditions has unexpectedly translated into stronger rather than weaker headwinds for Russian producers so far.

"All in all, the October PMI survey should calm down somewhat concerns about industrial growth in Russia, but we need more data and longer track record of positive growth numbers before we should be able to firmly say the sector has bottomed out."

Historical Overview



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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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