

HSBC Russia Manufacturing PMI®

Modest improvement in manufacturing business conditions signalled in August

Key findings:

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

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. Input price inflation accelerated to the highest since October 2011, but remained weaker than the survey's long-run trend.

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. Readings above 50.0 indicate an overall improvement in business conditions, below 50.0 an overall deterioration.

The PMI 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.

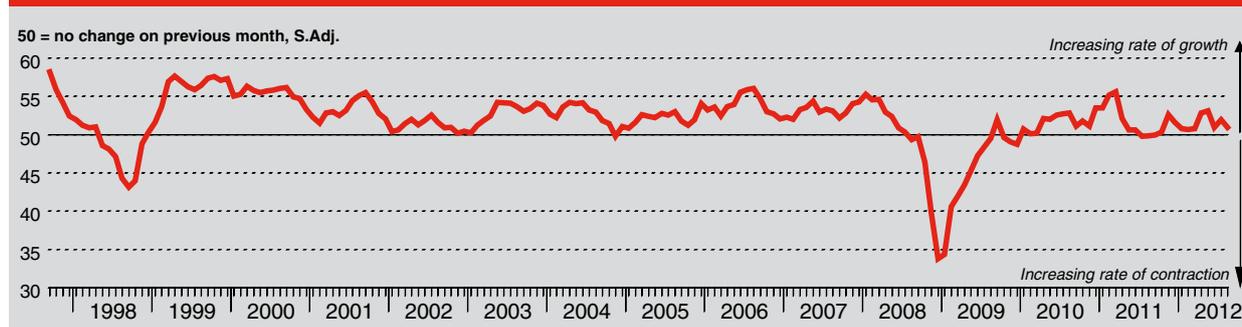
Russian manufacturers barely raised headcounts during the latest survey period. Staffing in the sector rose at a fractional pace, following no change during the previous month.

Purchasing activity rose in August, as it has in every month since February. 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. Cost pressures were strongest at producers of consumer goods.

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.

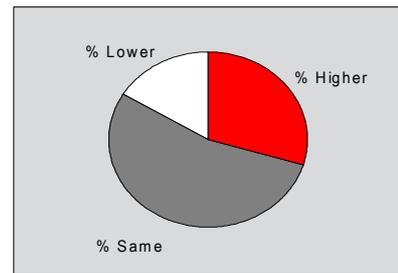
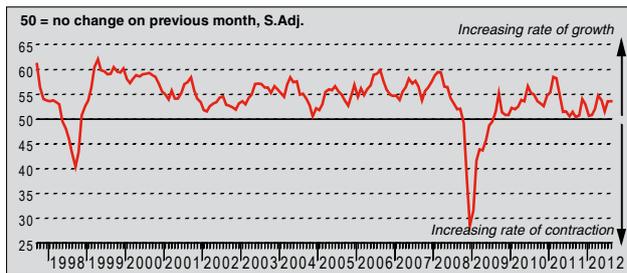
HSBC Russia Purchasing Managers' Index™ (PMI®)



The HSBC Russia Purchasing Managers' Index™ (PMI®) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, employment, suppliers' delivery times and stocks of goods purchased. A reading of the PMI below 50.0 indicates that the manufacturing economy is generally declining; above 50.0, that it is generally expanding. A reading of 50.0 signals no change. The greater the divergence from 50.0, the greater the rate of change signalled by the index. Purchasing Managers' Index™ and PMI® are trade marks of Markit Economics Limited, HSBC use the above marks under licence. Markit and the Markit logo are registered trade marks of Markit Group Limited.

Output Index

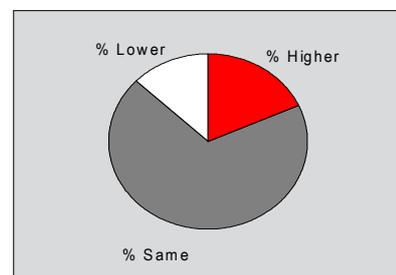
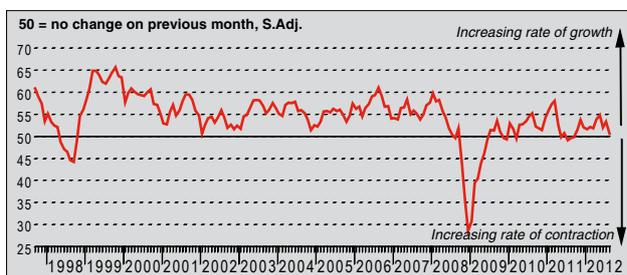
Q. Please compare your production/output this month with the situation one month ago.



Russia manufacturing output continued to expand at a solid pace in August. The seasonally adjusted Output Index was unchanged from July, signalling a constant rate of expansion. The current sequence of growth now stretches to 37 months. Higher production mainly reflected the completion of backlogs, however, as new business inflows were muted. The rate of growth remained weaker than the survey's long-run average. Production of intermediate goods rebounded, while growth of consumer goods output slowed since July.

New Orders Index

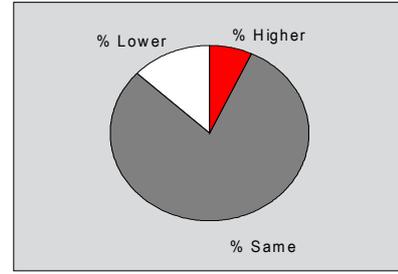
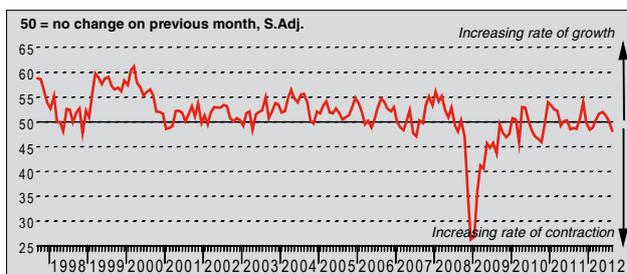
Q. Please compare the level of new orders received this month with the situation one month ago.



The seasonally adjusted New Orders Index remained above the no-change mark of 50.0 for the eleventh successive month in August, signalling growth of new business received by Russian goods producers. The pace of expansion slowed, however, to a marginal rate. By broad sector, new orders fell in both consumer goods and intermediate goods, and rose only modestly in investment goods.

New Export Orders Index

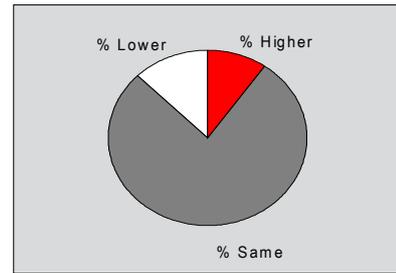
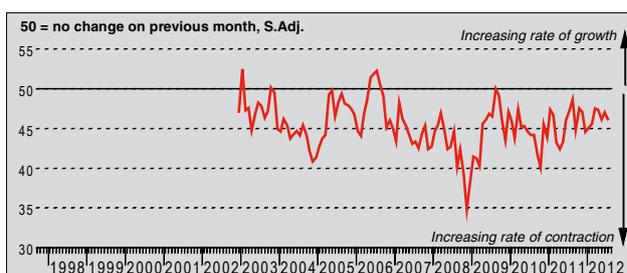
Q. Please compare the level of new export orders received this month with the situation of one month ago.



International demand for Russian manufactured goods weakened in August. The seasonally adjusted New Export Orders Index fell below the no-change threshold for the first time since February, and indicated a moderate rate of contraction. The prior five-month sequence of expansion had been the longest registered in four years. New export business fell sharply at investment goods producers and also declined in the intermediate goods sector, but rose at producers of consumer goods.

Backlogs of Work Index

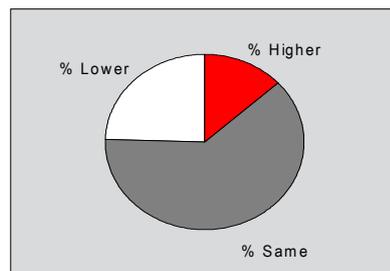
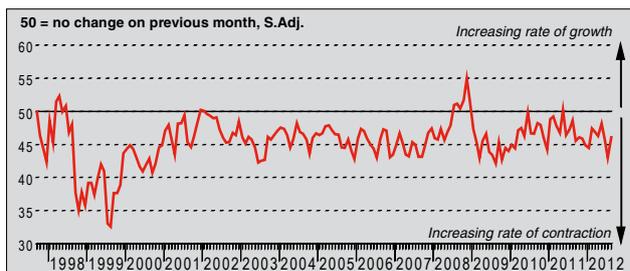
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



The volume of outstanding business held at Russia manufacturers declined at a sharper rate in August. The current period of continuous backlog depletion across the sector now stretches to nearly three years. That said, the seasonally adjusted Backlogs of Work Index was above its long-run average of 45.5. Backlogs fell in all three sectors, driven by consumer goods.

Stocks of Finished Goods Index

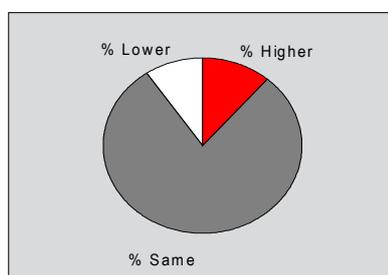
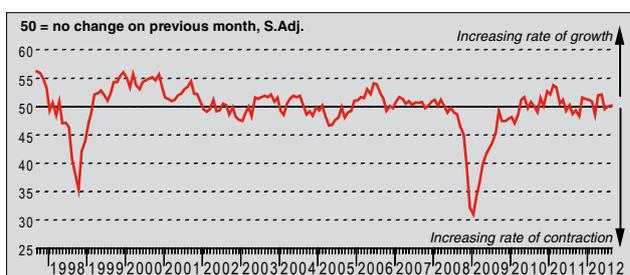
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



In line with the survey's long-run trend, the volume of final goods held in stock at Russian manufacturers declined on average in August. The seasonally adjusted Stocks of Finished Goods Index remained below neutrality for the fifteenth successive month, but rose from July's 33-month low to signal the weakest rate of depletion in three months. Sharp falls were recorded in the intermediate and investment goods categories, while no change was signalled in consumer goods.

Employment Index

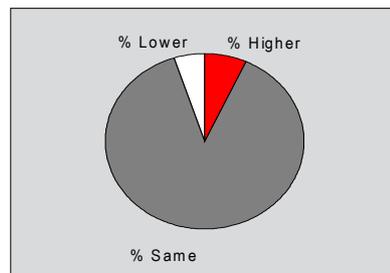
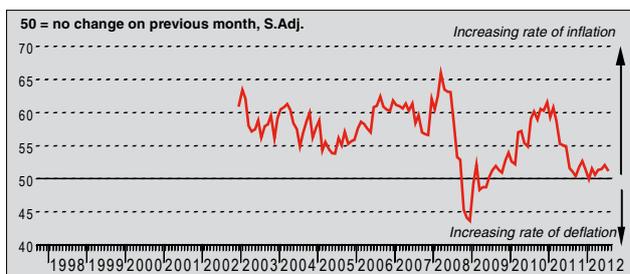
Q. Please compare the level of employment at your unit with the situation one month ago.



Russian manufacturing employment was little-changed in August, registering only a negligible increase. That followed no change in July and a marginal decline in June. Anecdotal evidence signalled that hiring linked to expansion at some firms was offset by organisational changes linked to efficiency measures at other companies. Employment growth at consumer goods producers contrasted with job cuts in the two remaining sectors.

Output Prices Index

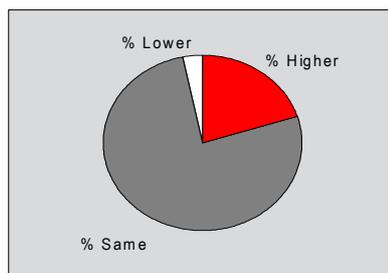
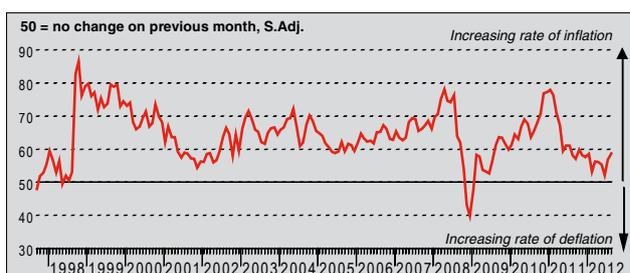
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Pricing power at Russian manufacturers remained muted in August. The seasonally adjusted Output Prices Index signalled higher charges for the sixth month running, but at a weaker rate than in July and one that was well below the historic series average. Firms mainly linked rising output prices to greater input costs. Consumer goods producers posted a stronger rise in tariffs than investment producers, while a fall was registered in the intermediate goods sector.

Input Prices Index

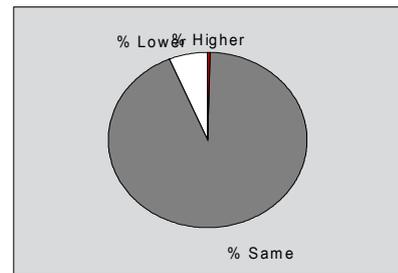
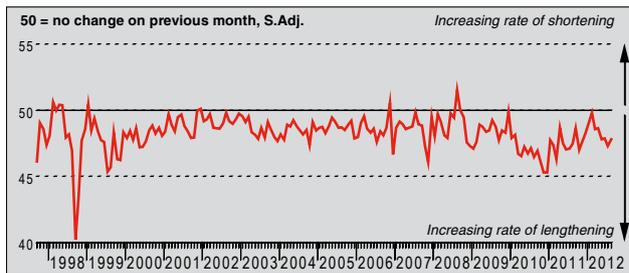
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



The rate of input price inflation faced by Russian goods producers strengthened to a ten-month high in August. A number of firms highlighted increases in utilities and fuel prices. That said, the seasonally adjusted Input Prices Index remained well below its long-run average of 64.2. By sector, inflationary pressure on costs was strongest in consumer goods, and weakest in investment goods.

Suppliers' Delivery Times Index

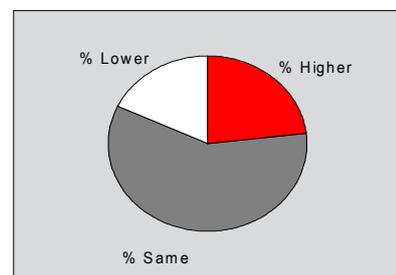
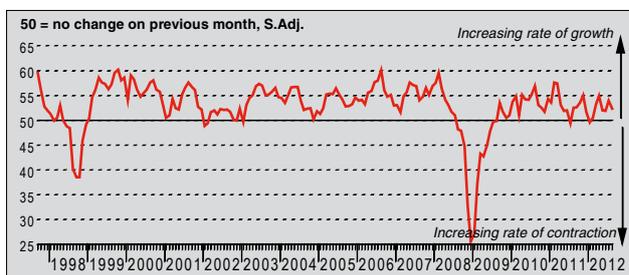
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



The performance of vendors supplying inputs to Russian manufacturers continued to deteriorate, on average, in August. Around 6% of firms reported longer lead times from suppliers compared with one month previously, partly linked to shortages. Survey data signalled broadly similar incidences of longer times in all three goods sectors.

Quantity of Purchases Index

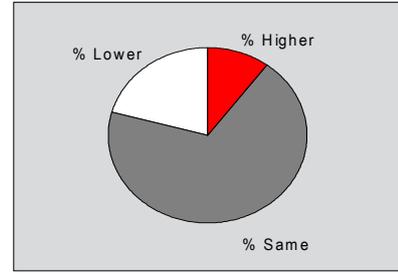
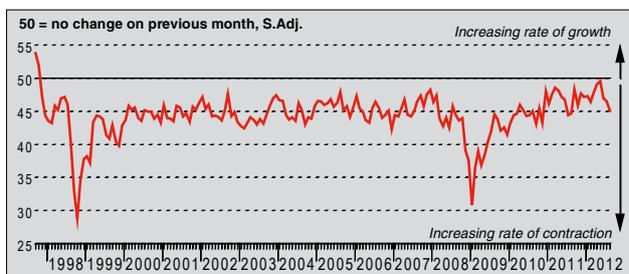
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Purchasing activity by Russian manufacturers rose in August, extending the current expansionary sequence to seven months. The rate of growth was moderate, and broadly in line with the average over the past 12 months. The seasonally adjusted Quantity of Purchases Index was slightly below its long-run average of 53.0 during the month.

Stocks of Purchases Index

Q. Please compare your stocks of purchases (in units) with the situation one month ago.



The rate of decline in average input stocks accelerated in August. The seasonally adjusted Stocks of Purchases Index fell for the third successive month, and signalled the fastest rate of depletion for a year. That said, it remained above its long-run average of 44.4. Pre-production inventories fell across all three sectors covered, led by consumer goods.

Notes on the Data and Method of Presentation

The *Purchasing Managers' Index* 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 (PMI[®]) 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.

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