

## HSBC Russia Manufacturing PMI®

Manufacturing PMI improves to four-month high in September

### Key findings:

- New orders rise for twelfth successive month, and at faster pace
- New export business stabilises
- Input price inflation strengthens to 17-month high

Survey data signalled an improving business climate for Russian manufacturers in September. The latest HSBC *PMI*® data compiled by Markit extended the current sequence of gains to 12 months, and marked the best overall performance since May. Growth rates for output, new orders and employment all accelerated, and new export business stabilised having declined the previous month. The latest survey findings also signalled a strengthening of inflationary pressures in the sector.

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 improved to a four-month high of 52.4 in September, up from 51.0 in August and slightly above its historic average of 52.1. The PMI has remained in positive territory throughout the past year, and was supported by four of its five components in September – output, new orders, employment and suppliers' delivery times. The exception was stocks of purchases, which exerted the strongest negative influence on the headline figure since August 2011.

Russian goods production increased in September, continuing the trend observed since August 2009. Moreover, the rate of expansion accelerated to the fastest since April. Output

continued to be supported both through increases in new business and the completion of backlogs.

New orders placed with Russian manufacturers rose for the twelfth month in a row in September. The rate of growth was the strongest in four months, supported by a marginal increase in new export business.

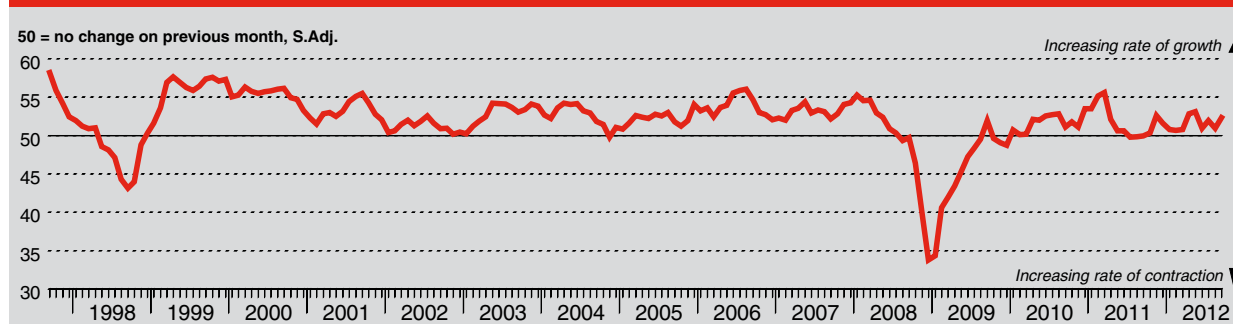
September data signalled a marked fall in backlogs of work at Russian goods producers, in line with the downward trend of the past three years. Moreover, the rate of depletion was the fastest since June 2011.

Employment in the sector rose in September, following little change during the previous two months. Workforce numbers have expanded eight times in the past 11 months.

Firms also increased the volume of purchasing activity in September but, with the pace of expansion remaining weaker than that observed for output, the level of inputs held in stock continued to fall. The rate of contraction in pre-production inventories was the fastest since August 2011.

Inflationary pressures built up in the latest survey period. Average input prices rose at the fastest rate since April 2011, driven by food, energy and transport costs. Output price inflation also accelerated, to the strongest since July 2011. That said, the rates of increase in both cases remained below the long-run survey averages.

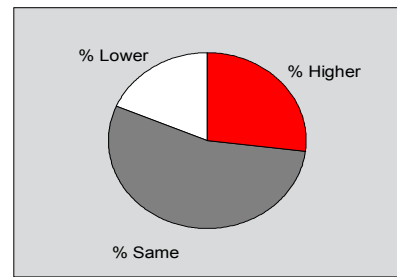
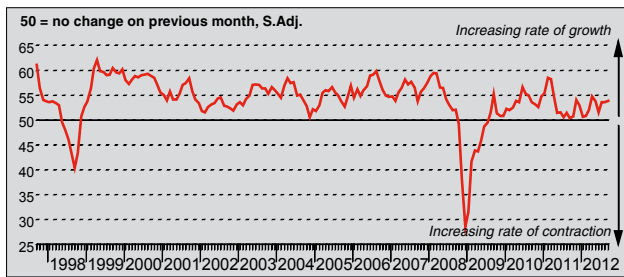
HSBC Russia *Purchasing Managers' Index*™ (PMI®)



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

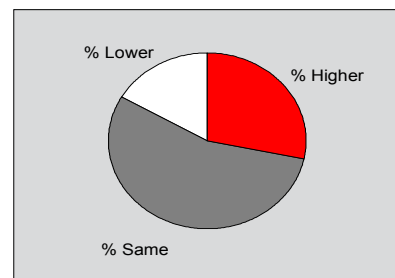
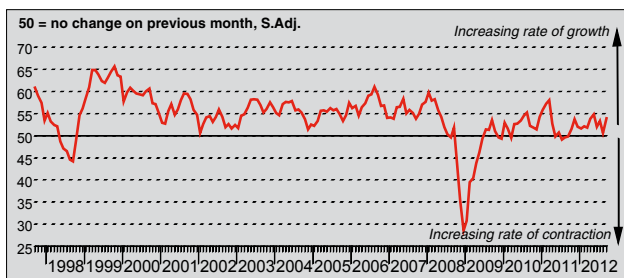
Q. Please compare your production/output this month with the situation one month ago.



Manufacturing output in Russia continued to grow in September. The seasonally adjusted Output Index remained above the no-change mark of 50.0 for the thirty-eighth month running, and edged up to signal the fastest expansion since April. That said, the Index was slightly below its long-run trend level of 54.2. Firms generally linked higher production to improving market conditions. Growth was driven by the consumer goods sector, while output of investment goods was broadly flat.

### New Orders Index

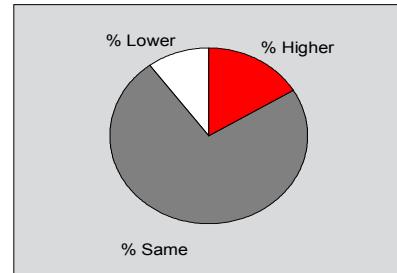
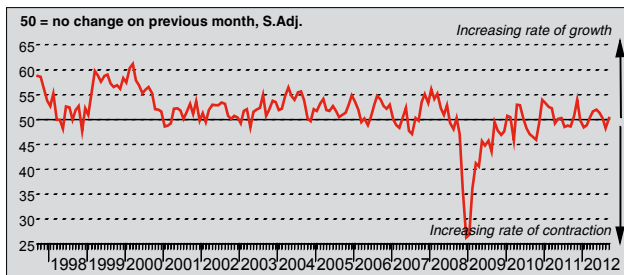
Q. Please compare the level of new orders received this month with the situation one month ago.



New order volumes rose at the strongest pace in four months in September, following only a marginal increase the previous month. The current sequence of expansion now stretches to 12 months, though the seasonally adjusted Index remained below its long-run average (54.5) in the latest period. Many firms reported winning new clients during the month and favourable market conditions. New business growth was broad-based by sector, led by consumer goods.

### New Export Orders Index

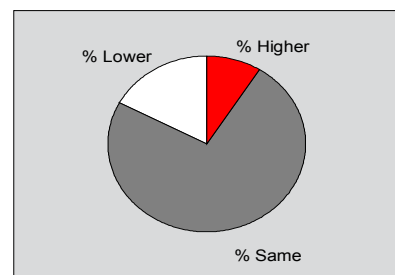
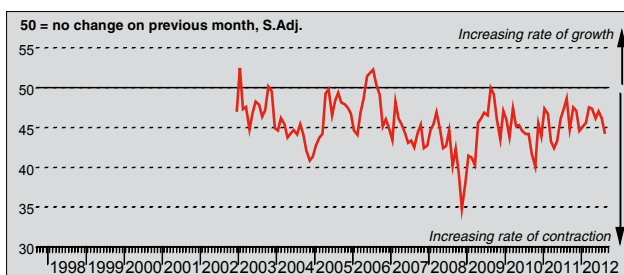
Q. Please compare the level of new export orders received this month with the situation of one month ago.



The seasonally adjusted New Export Orders Index rose above the no-change mark of 50.0 in September, indicating an increase in new export business received by Russian goods producers. The rate of expansion was only marginal, but international new orders have now risen six times in the past seven months. New export orders rose solidly at producers of consumer goods, but fell sharply in the investment goods sector.

### Backlogs of Work Index

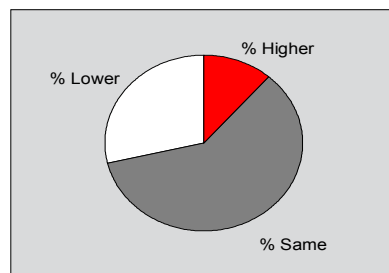
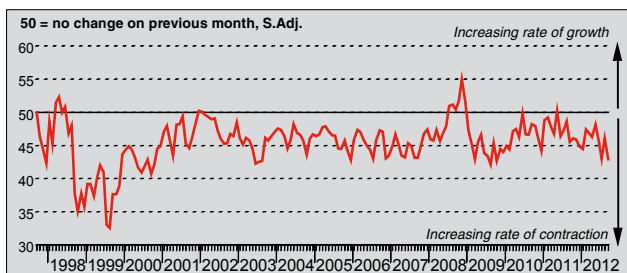
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



The volume of incomplete work continued to fall in September, indicative of spare capacity and a lack of pressure from demand in the manufacturing sector. Moreover, the seasonally adjusted Backlogs of Work Index fell on the month, and signalled the fastest rate of depletion since June 2011. Backlogs fell across all three monitored sectors, led by a rapid contraction at intermediate goods producers.

### Stocks of Finished Goods Index

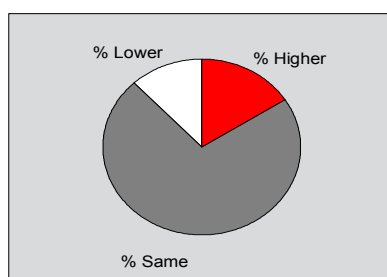
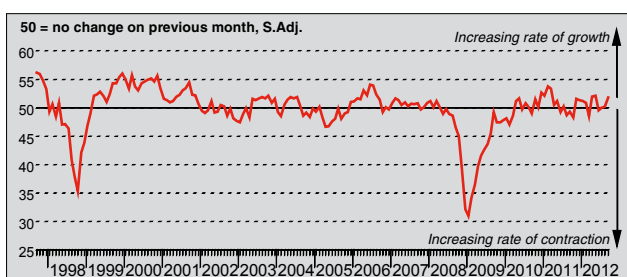
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Inventories of final goods held at Russian manufacturers declined on average for the sixteenth consecutive month in September. Moreover, the rate of contraction signalled by the latest data was the fastest in nearly three years. Some firms reported minimising stock levels in order to keep costs down. A marked contraction was signalled in the investment goods sector.

### Employment Index

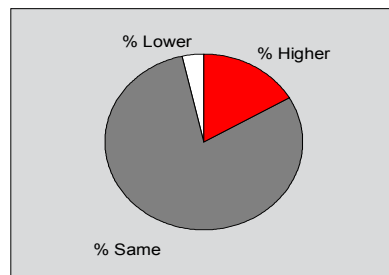
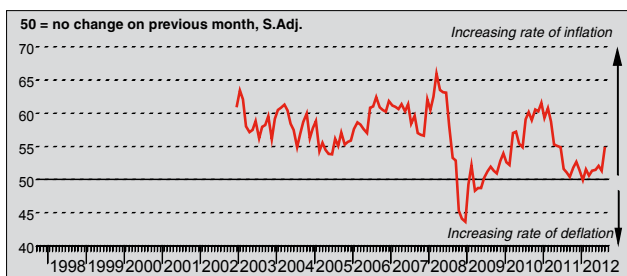
Q. Please compare the level of employment at your unit with the situation one month ago.



The level of employment in Russia's manufacturing sector rose in September. That followed a broadly flat trend over the prior two months. The seasonally adjusted Employment Index signalled the strongest rate of job creation since May, and was greater than its long-run average (49.9). Recruitment was linked to higher production and new orders. Employment rose strongly in the consumer goods sector, but declined further at investment goods manufacturers.

### Output Prices Index

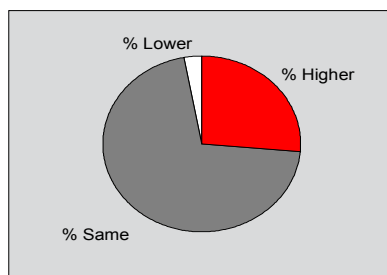
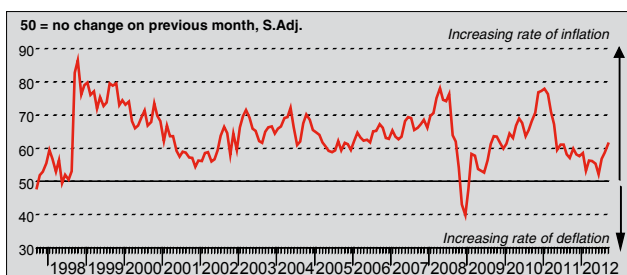
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



September survey data signalled a strengthening in manufacturers' pricing power at the end of the third quarter. The seasonally adjusted Output Prices Index moved higher in September, signalling the fastest rise in factory gate prices since July 2011. Moreover, the one-month increase in the Index was the greatest registered in over two years. That said, output price inflation remained softer than the long-run series average.

### Input Prices Index

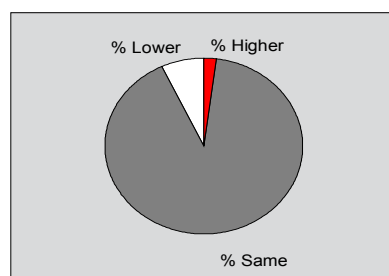
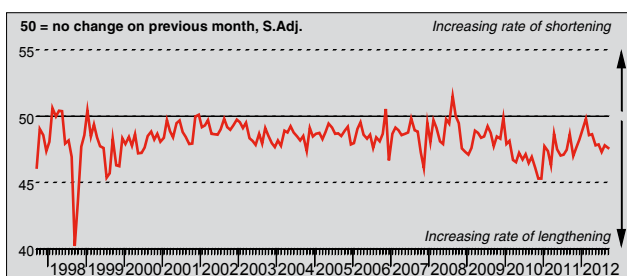
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



The rate of input price inflation strengthened for the third month in succession in September. The seasonally adjusted Input Prices Index signalled the strongest upward pressure on firms' input costs since April 2011, linked to higher energy, food and transport costs. By sector, input price inflation was strongest in consumer goods. That said, the overall rate of manufacturing input price inflation remained weak in the context of historic survey data (64.2).

## Suppliers' Delivery Times Index

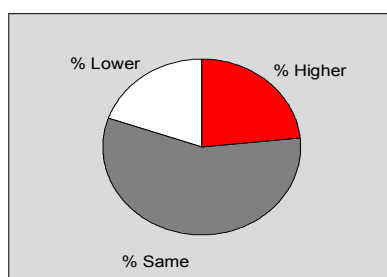
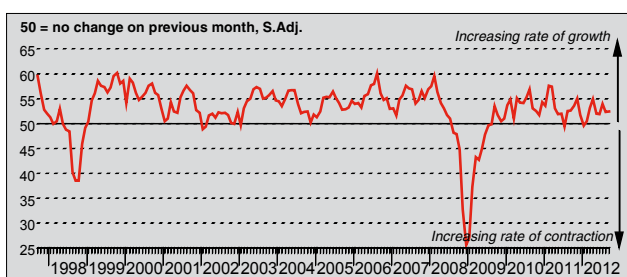
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Vendor delivery times continued to lengthen on average in September. The rate of lengthening was little-changed from the moderate rates registered in recent months. Firms partly linked delays to poor transport infrastructure. Instances of longer delivery times were reported at 7% of survey respondents, and these were mostly concentrated in the investment goods sector.

## Quantity of Purchases Index

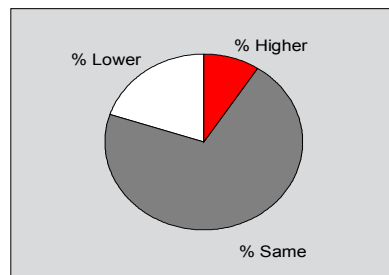
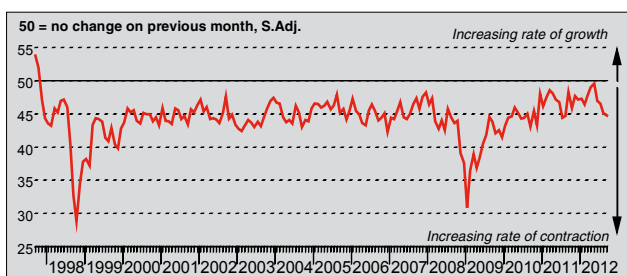
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



The seasonally adjusted Quantity of Purchases Index was above the no-change mark of 50.0 for the eighth month running in September, signalling growth in purchasing activity by Russian manufacturers. The rate of expansion was little-changed from August's moderate pace, however. Anecdotal evidence signalled that firms aimed to optimise stock levels during the month, and this had restricted growth of new purchases.

## Stocks of Purchases Index

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



Destocking at Russian goods producers continued apace in September. The seasonally adjusted Stocks of Purchases Index fell further below the neutral threshold, and indicated the fastest depletion in pre-production inventories since August 2011. Falling stock levels were concentrated in the investment goods sector while, in contrast, a rise was registered at consumer goods producers.

## 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*<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.

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