

HSBC Russia Manufacturing PMI®

Russian manufacturing expansion remains modest as new order growth slows

Key findings:

- Weakest rise in new orders since last August
- Output growth little-changed from March's modest pace
- Output prices fall for second time in three months

Business conditions facing Russian manufacturers improved only marginally at the start of the second quarter, HSBC PMI® data compiled by Markit showed. New order growth lost momentum for the third month in succession, partly reflecting a further drop in new export business. Production rose at a modest pace that was broadly similar to that shown in the previous month, while firms shed staff for the sixth consecutive survey. Inflationary pressure on input prices remained weak, while manufacturers cut their output prices for the second time in three months.

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 was above neutrality for the eighteenth time in the past 19 months in April, indicating an overall improvement in business conditions at Russian goods producers. It fell for the second month running, however, from 50.8 to a four-month low of 50.6, indicating that the pace of improvement remained marginal. The latest figure was the second-lowest in a year-and-a-half.

The volume of new orders received by Russian manufacturers rose for the nineteenth month in a row in April. The pace of expansion slowed for the third consecutive month, however,

to the weakest for eight months. Export conditions remained challenging despite the weaker ruble, as new export orders fell for the third month running.

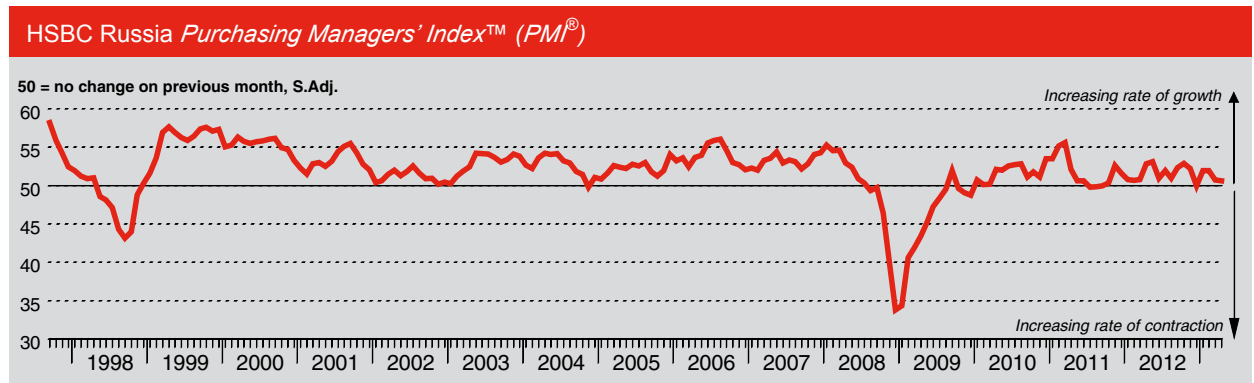
Russian goods production rose in April, continuing the trend shown since August 2009. The rate of expansion was little-changed from March's weak pace, and slower than the average over the current growth sequence.

Purchasing activity also rose at a modest pace in April, having increased only marginally in the previous month. Stocks of inputs fell at the sharpest rate in four months as a result.

Survey data indicated an ongoing round of job cutting in the Russian manufacturing sector. The current sequence of falling employment now stretches to six months, with the rate of reduction strengthening slightly in April.

The average price paid by manufacturers for their inputs rose in April, reflecting higher costs for energy, supplier charges and the effect of the weaker ruble on import prices. The rate of inflation was the strongest in four months, but remained weak in the context of historic survey data.

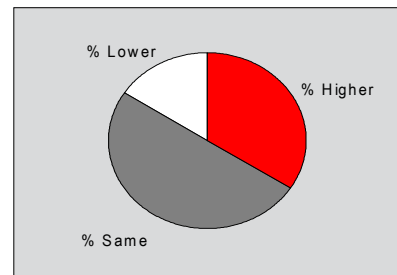
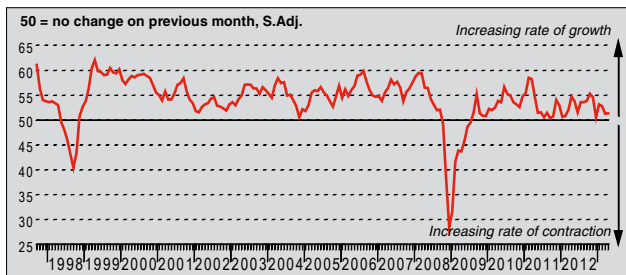
Manufacturers cut prices for their final goods for the second time in three months in April. Though marginal overall, the rate of reduction was the fastest registered since June 2009. Firms linked discounting to the weakness of current market conditions.



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

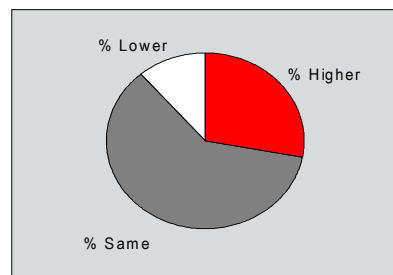
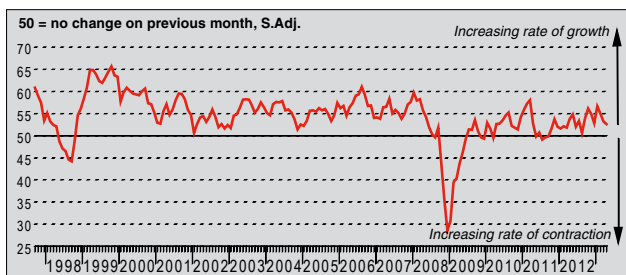
Q. Please compare your production/output this month with the situation one month ago.



Russian manufacturing production rose in April, extending the current sequence of expansion to 45 months. Growth was linked to higher new orders. That said, the seasonally adjusted Output Index was little-changed from March's three-month low, and signalled only a modest rate of growth. The index was well below its long-run average of 54.1. Data broken down by broad sector signalled that growth at consumer and intermediate goods producers was partly offset by a marginal fall in the investment goods sector.

New Orders Index

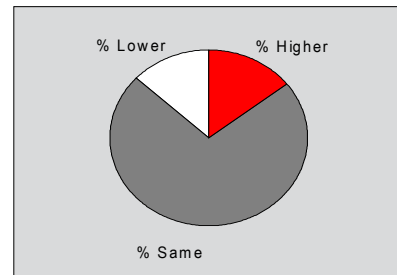
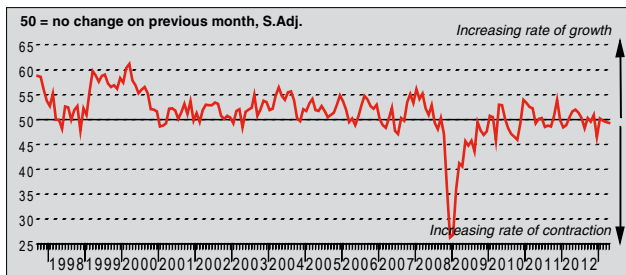
Q. Please compare the level of new orders received this month with the situation one month ago.



New business growth at Russian goods producers was maintained in April, continuing the trend shown since October 2011. Firms reported improving domestic demand and a number mentioned state contracts. The seasonally adjusted New Orders Index fell for the third successive month, however, and indicated the slowest rate of expansion since August 2012. Strong growth of consumer goods new orders was tempered by a marginal rise in intermediate goods new business and a flat trend in the investment goods sector.

New Export Orders Index

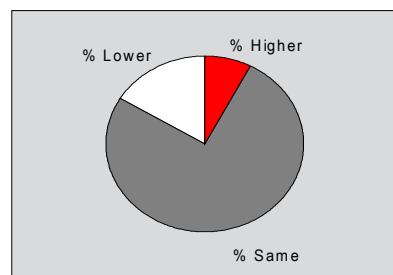
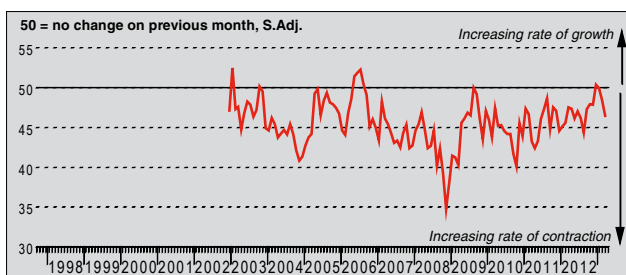
Q. Please compare the level of new export orders received this month with the situation of one month ago.



The seasonally adjusted New Export Orders Index remained below the no-change mark for the third successive month in April, signalling an ongoing decline in new business received by Russian manufactures from export markets. Moreover, new export contracts have declined six times in the past nine months. The overall contraction reflected trends in both the intermediate and investment goods sectors, as consumer goods firms reported solid growth. The overall rate of decline across the manufacturing sector was marginal, but sharper than in February and March.

Backlogs of Work Index

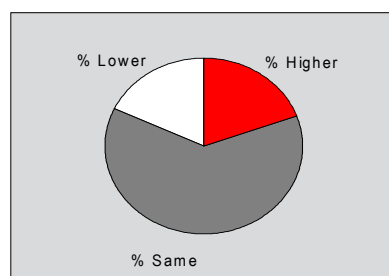
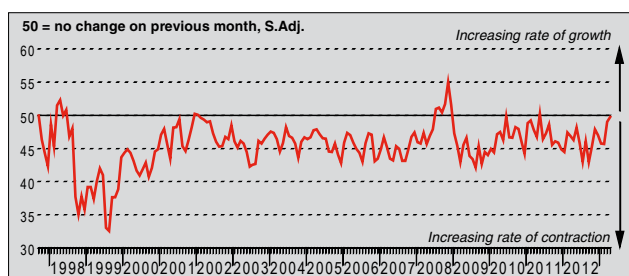
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



The overall level of outstanding business in the Russian manufacturing sector fell in April. Moreover, the seasonally adjusted Backlogs of Work Index moved lower, and signalled the fastest depletion in seven months. All three sectors registered declines, led by the investment goods sector. Firms linked lower backlogs to a combination of sluggish demand, excess production and efficiency improvements.

Stocks of Finished Goods Index

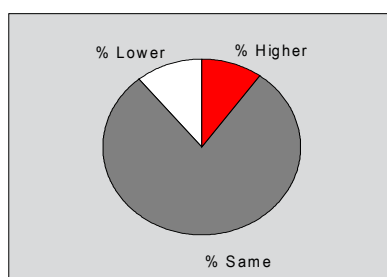
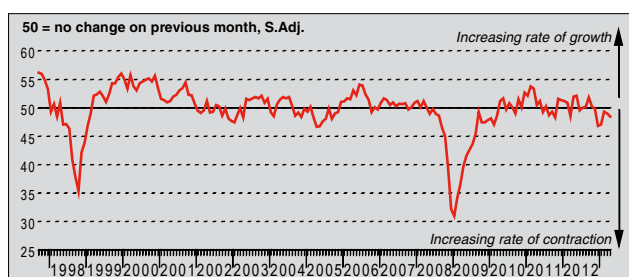
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



The seasonally adjusted Stocks of Finished Goods Index rose in April to a level consistent with broadly no change in final goods inventories at Russian manufacturers. Roughly 19% of survey respondents indicated growth, while 18% signalled falls. Higher stock levels at firms in the consumer and investment goods sectors were offset by a fall at intermediate goods producers.

Employment Index

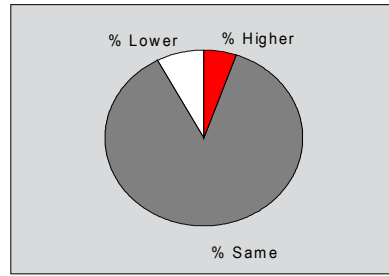
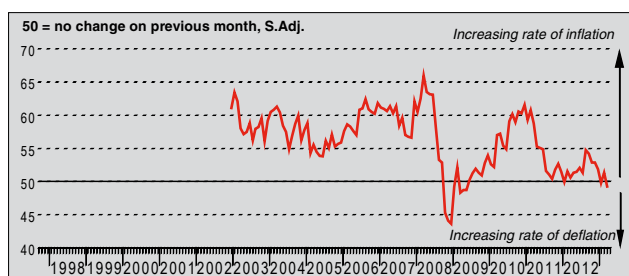
Q. Please compare the level of employment at your unit with the situation one month ago.



Manufacturers in Russia cut their workforces for the sixth month in a row in April. That marked the longest sequence of job shedding in over three years. The seasonally adjusted Employment Index fell since March, and signalled the fastest rate of decline in three months. Firms mainly linked job losses to subdued market conditions. A sharp drop in employment was registered in the investment goods sector, while a marginal rise was indicated at consumer goods producers.

Output Prices Index

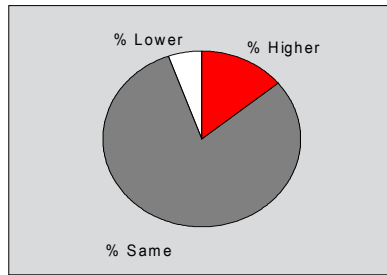
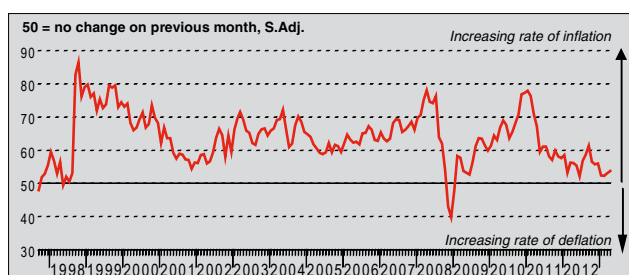
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Output prices charged by Russian manufacturers fell for the second time in three months in April. The seasonally adjusted Output Prices Index fell to its lowest level since June 2009, but nonetheless indicated only a marginal rate of reduction. Around 8% of firms lowered their prices since one month previously, linked to current market conditions. Output prices fell in the intermediate and investment goods sectors, but rose strongly at producers of consumer goods.

Input Prices Index

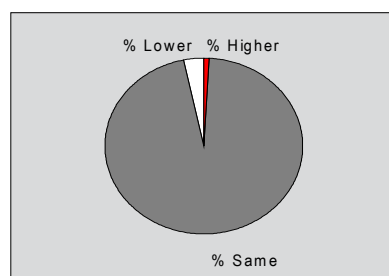
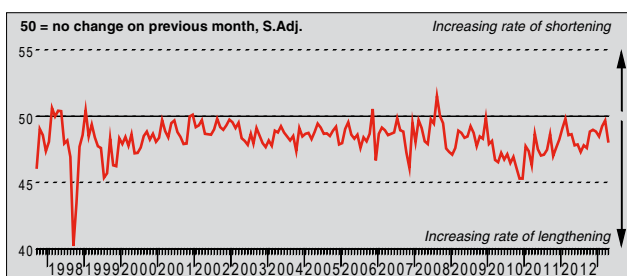
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Inflationary pressure on firms' purchase prices remained subdued in April. The seasonally adjusted Input Prices Index remained well below its long-run trend level, despite rising to the highest level in four months. A weaker ruble, and increased energy prices and supplier charges were mentioned by those 14% of firms that reported higher input prices. Input cost inflation was strongest in the consumer goods sector, and weakest in the investment goods sector.

Suppliers' Delivery Times Index

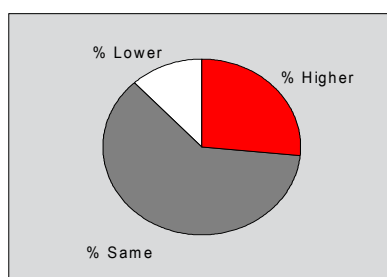
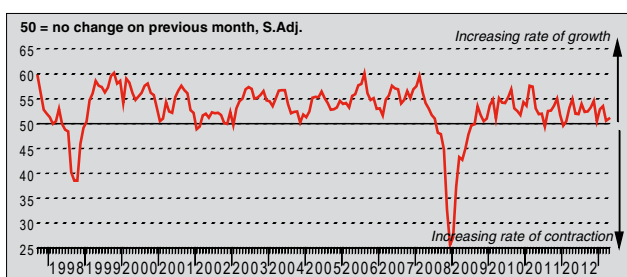
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



The seasonally adjusted Suppliers' Delivery Times Index remained below the no-change mark of 50.0 in April, signalling deteriorating vendor performance on average across the Russian manufacturing sector. Moreover, the index fell on the month, and indicated the greatest lengthening in lead times since last September. Suppliers to investment goods producers registered the worst overall performance, as was the case in March.

Quantity of Purchases Index

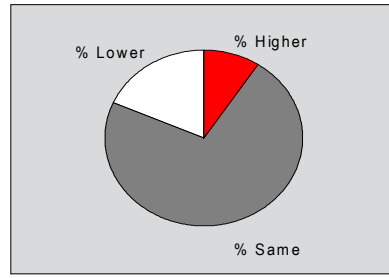
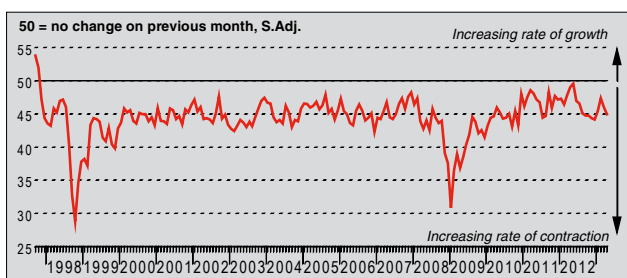
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Purchase activity by Russian manufacturers rose for the fifteenth successive month in April. Survey respondents mainly linked higher input volumes to increased production. The rate of growth picked up slightly from March, but remained weak, with the seasonally adjusted Quantity of Purchases Index below its long-run average of 52.9. Purchases rose in the consumer and intermediate goods sectors, but fell further at producers of investment goods.

Stocks of Purchases Index

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



In line with the trend shown throughout much of the survey history, pre-production inventories at Russian goods producers declined on average in April. Moreover, the seasonally adjusted Stocks of Purchases Index fell on the month, to the lowest level in 2013 so far. Stock depletion was most common in the investment goods sector, partly reflecting a fall in new purchases.

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*TM (*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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