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HSBC Russia Manufacturing PMI®

New order growth slows to marginal rate

Key findings:

- New business growth weighed down by renewed drop in export contracts
- Employment continues to fall sharply
- · Overall business conditions deteriorate for third month running

September *PMI*® data from HSBC showed an ongoing deterioration in Russian manufacturing business conditions, rounding off the weakest quarter since Q4 2009. New order growth slowed to a marginal rate as new export work declined for the first time in five months. Output rose at a fractional pace, and the rate of job shedding remained among the sharpest seen in four years. Input and output prices both continued to rise at historically weak rates.

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. It is derived from indicators for new orders, output, employment, suppliers' delivery times and stocks of purchases. Readings above 50.0 indicate an overall improvement in business conditions, below 50.0 an overall deterioration.

The PMI registered in negative territory for the third month in succession in September, the longest run of sub-50.0 readings since late-2009. The headline index was unchanged from August at 49.4 and signalled a marginal overall deterioration in operating conditions. The average reading for Q3 (49.3) was the lowest since Q4 2009 (49.2). The main negative influence on the headline figure in September was again employment, while new orders and output both registered marginally positive contributions.

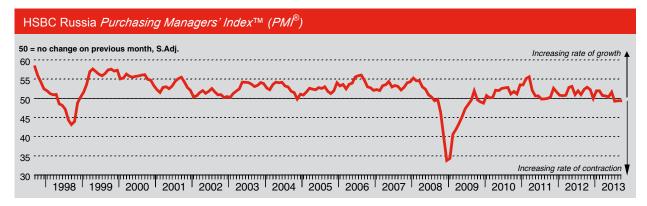
A marginal rise in new orders received by Russian goods producers signalled ongoing tough demand conditions in the sector. In particular, the volume of new export work declined for the first time in five months, and at the fastest rate since December 2012.

With new orders registering fractional growth in September, the volume of output rose only marginally. The overall trend over the third quarter was one of stagnation, with production levels supported by working through existing contracts. Backlogs of work declined for the seventh month running, and at the fastest pace since September 2012.

In line with the trend shown for new business, the volume of inputs purchased by Russian manufacturers was only marginally higher than one month previously. Input inventories continued to decline sharply as a result. Suppliers' delivery times lengthened slightly, having improved in August.

Headcounts at manufacturers remained under pressure in September, with employment in the sector declining at a rate little-changed from August's four-year record. The workforce has contracted ten times in the past 11 months.

Inflationary pressures remained subdued in September, despite the weak ruble continuing to place pressure on import prices. Input price inflation was unchanged at an historically weak level, while output prices rose only modestly.



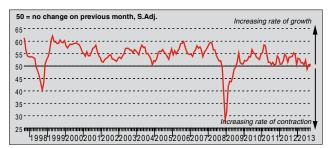
The HSBC Russia $Purchasing\ Managers'\ Index^{TM}\ (PMI^0)$ is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in 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. $Purchasing\ Managers'\ Index^{TM}\ and\ PMI^0$ 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.

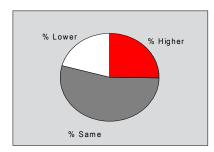




Output Index

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

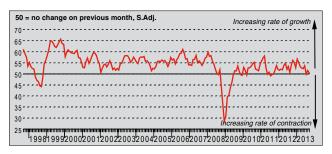


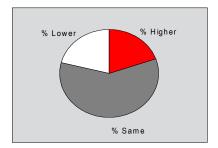


Russian manufacturing output posted another marginal increase in September. The seasonally adjusted Output Index remained only fractionally above the no-change mark of 50.0 and averaged 49.9 over the third quarter as a whole, indicative of a stagnation in production. Firms reported lacklustre new order inflows. By market group, output rose solidly in the investment goods sector, but declined at intermediate goods producers. Consumer goods production rose modestly.

New Orders Index

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

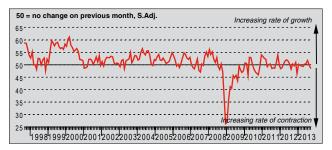


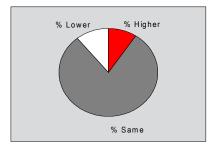


New order growth at Russian goods producers slowed to near-stagnation in September. The seasonally adjusted New Orders Index posted its second-lowest level in two years. Weighing on growth of new work in the latest period was a decline in new export business. Solid gains in new orders at both consumer and investment goods firms were mostly offset by a decline in the intermediate 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.

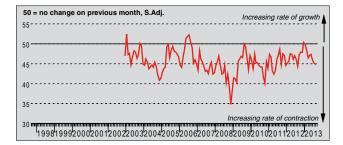


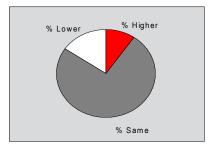


The volume of new export business received by Russian manufacturers declined for the first time in five months in September. Moreover, the rate of contraction was the fastest indicated in 2013 so far. Firms generally blamed weak demand conditions for the lack of incoming new work from abroad. All three main sectors registered declines, with the steepest drop registered at consumer goods firms.

Backlogs of Work Index

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

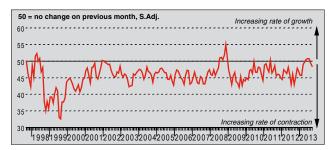


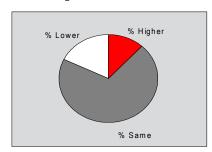


Outstanding workloads in the manufacturing sector continued to fall sharply in September, linked to lacklustre demand. The seasonally adjusted Backlogs of Work Index signalled a seventh successive contraction, and the fastest rate of decline since September 2012. All three main sectors registered lower backlogs, continuing the trend shown throughout the third quarter. The steepest drop in September was indicated in the intermediate goods sector.

Stocks of Finished Goods Index

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



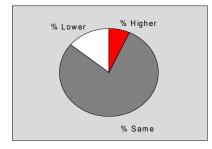


Post-production inventories at Russian manufacturers declined for the second month running in September, following a three-month sequence of growth. The rate of depletion in the latest period was modest overall, but nevertheless the fastest registered since February. Stocks declined at around 18% of survey respondents, linked to sales shipments. The overall contraction masked a solid increase at consumer goods firms.

Employment Index

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



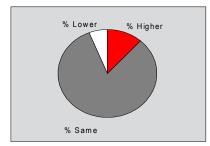


Manufacturing employment in Russia declined for the third consecutive month in September, reflecting sub-optimal workloads and weak inflows of new orders. The rate of job shedding was little-changed from August's four-year record. The workforce has expanded only once in the past 11 months, a marginal increase in June. Falling employment was registered in all three sectors in September, led by intermediate goods.

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.

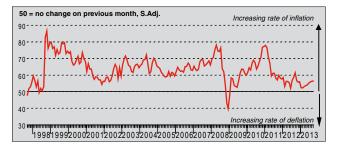


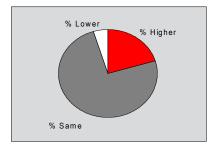


Prices charged for Russian manufactured goods continued to rise at a weak rate in September. The seasonally adjusted Output Prices Index was unchanged from August, and well below its long-run average of 56.1. Fewer than 12% of firms reported higher charges, linked to increased raw material and energy prices. In line with the recent trend, consumer goods firms raised their prices at the fastest rate among the three main sectors.

Input Prices Index

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

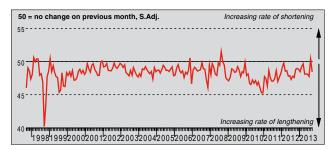


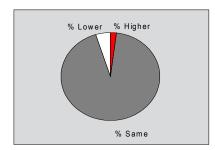


The seasonally adjusted Input Prices Index was unchanged from August's ten-month high in September, indicating a solid increase in Russian manufacturers' average input costs. That said, the rate of inflation remained much weaker than the long-run survey trend. Firms widely linked upward pressure on purchasing costs to the weaker ruble raising the prices of imported items, and also higher energy and fuel costs. The strongest rate of input price inflation was registered in the intermediate goods sector.

Suppliers' Delivery Times Index

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

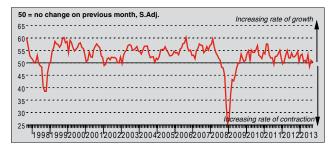


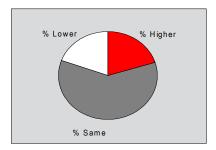


Having shortened slightly in August for the first time in nearly five years, suppliers' delivery times resumed a lengthening trend in September. That said, only around 5% of survey respondents reported worse vendor performance than one month previously. Anecdotal evidence linked longer times to delays with Asian imports, and also problems with purchasing strategies. Sector data signalled that vendor performance deteriorated across all three main sectors, led by consumer goods.

Quantity of Purchases Index

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

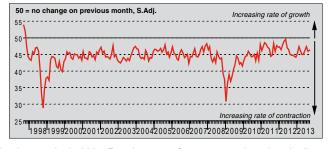


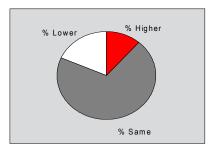


Growth of purchasing activity in the Russian manufacturing sector slowed to near-stagnation in September, in line with the trend shown for new orders. The seasonally adjusted Quantity of Purchases Index fell to a level only slightly above the no-change mark of 50.0. Two sectors registered growth of input volumes, with investment goods posting a steeper increase than consumer goods. Purchasing activity was broadly flat in the intermediate goods sector.

Stocks of Purchases Index

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





Pre-production stocks held by Russian manufacturers continued to decline on average in September. The rate of depletion was slightly slower than in August, and weak in the context of historic survey data. Firms linked lower inventory levels to efforts to avoid overstocking and the completion of backlogs. Among the three main sectors covered, the fastest rate of depletion was registered in investment 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' IndexTM (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.

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