

HSBC Russia Manufacturing PMI®

Manufacturing business conditions continue to deteriorate in March

Summary

Russia's goods-producing sector continued to experience a downturn in March, PMI® data from HSBC showed. Latest survey data marked a fifth successive month of decline, with output and new business both contracting at the fastest rates in nearly five years. Exports continued to weigh on overall new order inflows, despite the weaker ruble. Manufacturers continued to shed staff, and backlogs fell sharply. Also reflecting the weakening currency, inflationary pressures surged, with input prices rising at the fastest rate in three years.

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. The PMI remained below the 50.0 no-change mark in March, signalling deteriorating operating conditions at Russian manufacturers for the fifth consecutive month. The headline figure fell slightly to 48.3, from 48.5 in February. On a quarterly basis the PMI averaged 48.3 in the first three months of 2014, the lowest of any quarter since Q2 2009.

Central to the worsening business climate in March was a deteriorating order book situation. New orders fell for the fourth month running, and at the fastest rate since May 2009. New export orders fell for the seventh month running, and at a faster rate than total new business.

A lack of incoming new work led to further declines in output and backlogs in March. Russian manufacturing output fell for the third month running, and at the fastest rate since May 2009. The decline in outstanding business remained sharp, highlighting a lack of pressure on capacity, but eased during the month.

Manufacturing employment in Russia declined in March, underlining the weakness of business conditions in the sector. Firms have cut staffing for nine consecutive months. The volume of inputs ordered also declined, albeit at the slowest rate in the current five-month sequence.

The latest survey results indicated a marked intensification of cost inflationary pressures at Russian manufacturers. Average input prices increased at the fastest rate in three years, and one that was greater than the long-run survey average. Firms heavily linked upward pressure on input prices to the weaker ruble exchange rate. There was also some pass-through of higher input costs to customers, with output prices rising at the fastest rate since April 2011.

Comment

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

"Business activity in manufacturing kept deteriorating at a marginally faster rate, the March HSBC Russia Manufacturing PMI survey revealed. As before, the deterioration was broad-based, reflected in all key business activity indexes. Notably, export demand shrank at the fastest rate since 2009. As a lead indicator, export demand predicts the likely continuation of contraction in manufacturing in the coming months. Structurally, growth in new demand and output was seen only in the consumer goods sector. At the same time, this sector has sharply increased its inventories, which is a negative signal for future business activity."

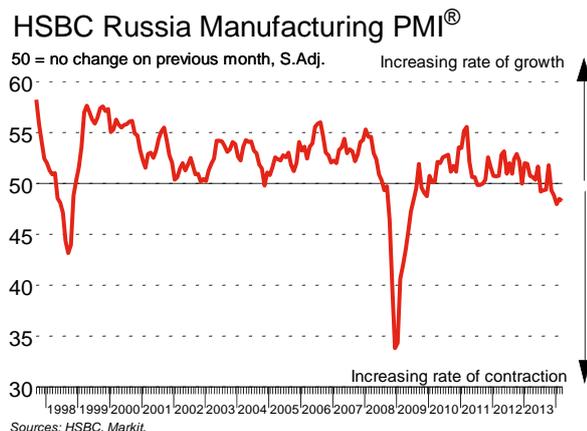
"PMI Price Indexes are worth a special highlight this time. The Input Price Index jumped by almost 10 points to its highest level in three years. The Output Price Index has almost reached its three-year maximum too, yet its value gain was less pronounced compared to the Input Price Index. Importantly, output price inflation was strongest in the consumer goods sector. Apparently, we observe a strong price action in the economy on the back of currency depreciation and fears of further depreciation down the road. Retail prices are still to follow the spike in producer prices, intensifying the pass-through effect from weaker rouble, we reckon."

"Surging prices and contraction of business activity is an ugly mix for financial markets. From the monetary policy perspective, this mix requires a continuation of tight monetary policy, we think. Indeed, the apparently increased business uncertainty could hardly be reduced by lowering policy rates. At the same time, elevated interest rates should help in stabilizing the exchange rate and reducing depreciation and inflationary expectations."

Key points

- PMI remains below 50.0 for fifth successive month
- Strongest declines in output and new orders in nearly five years
- Input price inflation surges, linked to weaker ruble

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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About PMI:

Purchasing Managers' Index[™] (PMI[®]) surveys are now available for 32 countries and also for key regions including the Eurozone. They are the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to www.markit.com/economics

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