HSBC Russia Manufacturing PMI®

Russian manufacturing business conditions deteriorate in July

Key points

- PMI dips below 50.0 no-change mark for first time since August 2011
- Flat trend in new orders results in lower output
- New export order growth picks up to 14-month high

Summary

The business climate facing Russian goods producers worsened at the start of the second half of the year, HSBC PMI® data compiled by Markit showed. A stagnation in new orders led to the first drop in manufacturing output in four years, while firms cut staff at the fastest rate in six months. Contrary to the overall decline in new orders, the volume of new export business rose at the fastest rate in 14 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. The PMI fell below the no-change mark of 50.0 in July, posting 49.2, down from June's four-month high of 51.7. It was the first negative reading since August 2011, and the lowest figure since December 2009.

Central to the overall deterioration was a flat trend in new orders. This ended a 21-month sequence of expansion. Data signalled that the domestic market was the main source of weakness, as new export business rose for the third month running and at the strongest rate since May 2012.

A lack of incoming new work in July led to a drop in production, the first such decline since July 2009. Meanwhile, backlogs fell for the fifth month running, and at the strongest rate since September 2012. Employment declined for the eighth time in nine months as a result, and at the strongest rate since January.

In response to the weakening in market conditions, goods producers cut their input buying for the first time since January 2012. Moreover, the rate of decline was the strongest in just over four years. Input inventories continued to contract, but at the slowest rate in five months. In contrast, stocks of final goods rose for the third month running, the second-longest sequence in the 16-year survey history.

Input prices rose at the fastest rate in seven months, linked to exchange rate pressures and higher prices for energy. That said, the overall rate of inflation remained historically weak. Output price inflation also hit a seven-month high, but remained modest overall.

Comment

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

"Manufacturing stopped growing and slid into contraction territory in July, the HSBC Russia Manufacturing PMI survey has revealed. Output, new orders and employment – all key PMI indexes – marked significant falls to below the 50 point no-change mark in July. On top of that, inventories recorded an increase for the third month in a row, a trend seen before only during the crisis years of 2008 and 1998. These results appear negatively surprising after quite robust PMI survey results in the preceding month. Against such sad backdrop, the improvement of New Export Orders to a 14-month high was the only bright spot in the survey. This is what makes the current situation positively different from those seen in the past, in 2008 and 1998: External demand is favourable for the resumption of growth this time.

"Are there reasons to expect domestic demand to recover soon? There are some, but not many. First, the chief growth weakness was registered in the intermediary goods sector in July, while both consumer goods and investment goods sectors saw continued demand growth. This could support demand for intermediary goods in the coming weeks. Second, the likely rich harvest this year should give a boost to the food industry, while export demand (if sustained) should translate into stronger domestic demand through local production chains. Finally, inflation easing should support income growth, growth of private consumption and output growth in related industries. That said, other Russian industries still appear vulnerable in the current environment, and the sustainability of export demand is not guaranteed, with signs of further growth moderation in China.

"The July HSBC Russia Manufacturing PMI survey findings, together with the recently-emerged signs of weakness in the labour market and helped by the observed inflation slowdown, speak for the presence of some room for stimulatory policy measures. This should move forward cuts in key policy rates in Russia, we think."

Historical Overview

Sources: HSBC, Markit.

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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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