

# HSBC Russia Manufacturing PMI®

## New order growth slows to marginal rate

### Summary

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 HSBC Purchasing Managers' Index™ (PMI) – a composite indicator designed to give a single-figure snapshot of operating conditions in the manufacturing economy – 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).

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.

### Key points

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

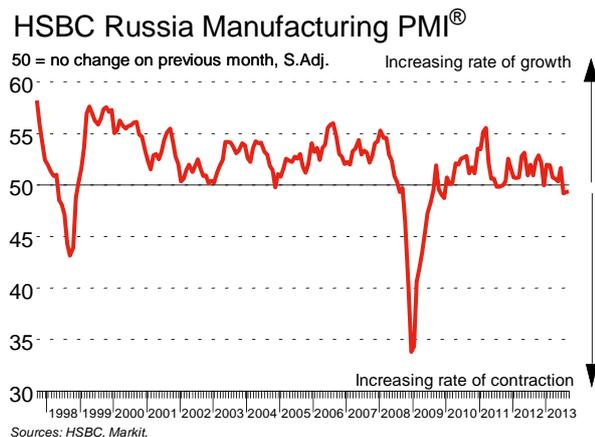
### Comment

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

*"Business conditions kept deteriorating while output growth has continued, the September HSBC Russia Manufacturing PMI survey found. Companies continued to actively shed workers in adjusting to the lacklustre growth environment, which should bring about efficiency gains. At the same time, a fresh decline in new export orders poses downside risks for the continuation of weak-yet-steady output growth in manufacturing. Structurally, the intermediate goods sector severely underperformed both investment goods and consumer goods sectors in September. Probably, focusing more on efficiency gains, companies have revisited their purchasing policy, including stocks of purchases, in order to reduce costs. Interestingly, the intermediate goods sector reported the highest input price inflation while the highest output price inflation was registered in the consumer goods sector. This is a good illustration of the role of demand in price dynamics: where demand is still robust, output prices tend to rise relatively fast; conversely, a lack of demand stalls output price growth even if costs keep rising.*

*"Summing up, weak output growth in manufacturing stays in place, yet downside risks to growth increased last month. We expect the emergence of some weakness in the labour market soon, reflecting the ongoing fast reduction in the manufacturing workforce. For us (and, hopefully, for the Central Bank too) this is one of the indicators showing that economic growth in Russia is below its potential at the moment."*

### 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*<sup>™</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. 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](mailto:economics@markit.com).

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