

HSBC Russia Manufacturing PMI®

Russian manufacturing recovery remains fragile

Summary

The Russian manufacturing sector continued to grow in terms of output and new orders in September, according to HSBC PMI® data compiled by Markit. That said, the overall expansion lost momentum, as output rose more slowly and new order growth faced headwinds from a sharp fall in new export business. Moreover, employment fell further and firms cut purchasing activity for the first time since May.

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 registered 50.4 in September, down from 51.0 in August. The month-on-month drop in the headline figure was the first registered since March, reflecting slower growth of output and steeper declines in employment and stocks of purchases. That said, on a quarterly basis the PMI registered 50.8 in Q3, the best since Q2 2013.

Contributing to the overall improvement in business conditions was a further rise in new work in September. New orders increased for the third month running, and at the fastest rate since October 2013. That said, the pace of expansion remained relatively subdued, and was weighed down by a sharp drop in new export business during the month. New export orders have fallen continuously since September 2013.

Output rose for the fourth month running, but the rate of growth slowed further and was historically weak. Production was partly supported through a solid depletion in backlogs of work during the month. Lower outstanding business also reflected firms' efforts to improve efficiency, with output rising despite a further drop in employment in the sector. Job shedding has been registered in every month since July 2013.

Firms cut purchasing activity for the first time in four months in September, linked to shortages of working capital and weak output expectations. Despite this easing of pressure on suppliers, delivery times for inputs lengthened to a greater extent, partly attributed to delays with imports. Stocks of purchases declined at the fastest rate since April.

Input prices rose at the fastest rate in four months in September, and one that was broadly in line with the survey's long-run average. Prices charged for final goods also rose, with inflationary pressures widely linked to the weakening currency.

Comment

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

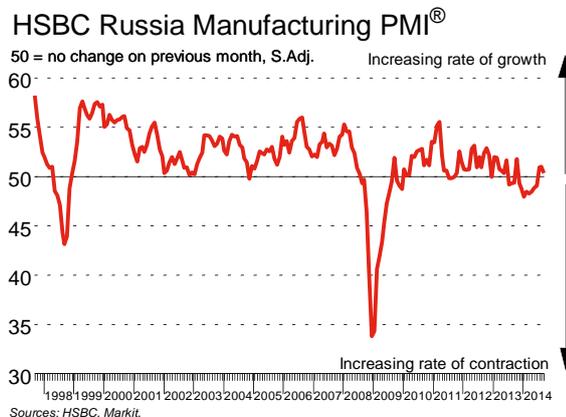
"The Russian manufacturing continued expanding gradually, yet losing growth momentum, the September HSBC Russia Manufacturing PMI survey found. While total new orders showed signs of stronger recovery, export demand plunged in September. Producers must be shifting further to the cost optimization strategy, focusing primarily on business efficiency. Indeed, both stocks and quantity of input purchases was reduced while labour shedding intensified. Quite likely, companies do not believe in the sustainability of demand growth and experience shortage of working capital, as some of them explicitly reported. Besides, they must be trying to preserve profit margins amid rising cost pressures and their inability to pass on the rise in costs to their customers in full. Yet, output prices growth still remained elevated compared to last year."

"The overall situation in manufacturing looks rather stable. Cost efficiency measures create a cushion against global markets headwinds and high funding costs. Import substitution and state orders must be supporting the manufacturing sector, as compared to other sectors of the Russian economy, we think. That said, investment goods industries single out from other industries: they reported the broad-based shrinkage in their business activity as captured by all key PMI survey indicators. This means that the observed growth in manufacturing is based on a weak footing."

Key points

- Slower rise in output in September
- Sharper drop in new export business weighs on total new order growth
- Manufacturing employment continues to fall

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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