

HSBC Russia Manufacturing PMI®

Russian manufacturing downturn slows in February

Summary

Russian manufacturing business conditions deteriorated only fractionally in February, as stronger domestic demand drove an increase in new work and production rose slightly. The latest HSBC PMI® data compiled by Markit also signalled weaker – but still severe – inflationary pressures during the month, reflecting the ruble's recovery from record lows. That said, overall growth of new orders was weak as new export business continued to decline sharply, and employment extended a survey-record sequence of decline to 20 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. 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 remained below the no-change mark of 50.0 for the third month running in February, indicating an overall deterioration in business conditions in the goods-producing sector. That said, the headline figure rose from 47.6 in January to 49.7, indicating only a fractional pace of decline. The month-on-month gain in the PMI was the largest observed in 16 months. Output and new orders both had positive overall contributions in February while employment continued to weigh on the PMI, albeit to a lesser extent.

The volume of incoming new orders in the Russian manufacturing sector rose for the first time in three months in February. That said, the rate of growth was only marginal, and weaker than those registered from July through to November last year. Survey data signalled that the domestic market was the primary driver of growth, as new export business declined for a survey-record eighteenth consecutive month, and at the fastest rate since last October.

An increase in new orders led to growth of output in February, the seventh expansion in the past nine months. The rate of expansion was modest, however, and weaker than the trend over this period. Backlogs of work continued to fall sharply and firms cut purchasing activity for the second month running, citing high prices.

Input price inflation in the Russian manufacturing sector slowed for the first time in seven months in February, to the lowest since October. That said, it remained at an elevated level overall, with firms continuing to link upward pressure on costs to the weak ruble. Higher costs were

suggested as the cause of another substantial increase in output prices, the second-fastest in the series history.

Manufacturing employment declined for the twentieth month in a row in February, the longest sequence of job shedding in the survey history. That said, the rate of contraction eased to a three-month low.

Comment

Commenting on the Russia Manufacturing PMI survey, Trevor Balchin, Senior Economist at Markit, said:

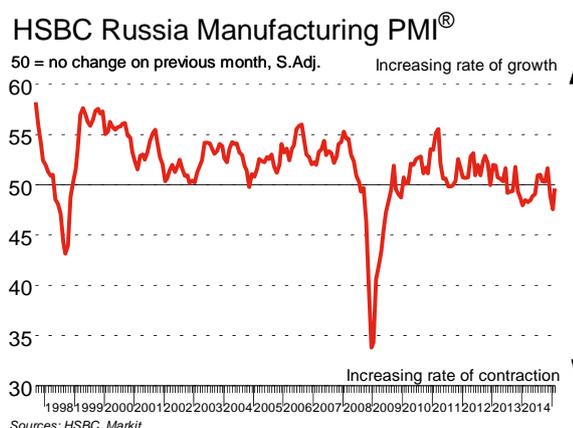
“Stronger domestic demand boosted Russian manufacturing output in February, with import substitution reported to have played a role. In contrast, new export business declined for a survey-record eighteenth successive month, and at a faster pace.”

“The other key finding from the February survey was the slower rate of input price inflation which, although still severe, was the weakest since October and reflective of the ruble's recent rally. But output price inflation eased only slightly during the month, and was still the second-highest on record.”

Key points

- Increased output and new orders offset by further drop in employment
- Inflationary pressures moderate from January, but remain substantial
- New export orders fall at sharpest rate since October

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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