

HSBC Russia Manufacturing PMI®

Russian manufacturing output rises solidly in July

Summary

HSBC PMI® data compiled by Markit signalled an overall improvement in Russian manufacturing business conditions at the start of the third quarter, ending a downturn that had lasted eight months. The main forces driving the recovery in the sector were a solid rise in output and growth in new orders. Inflationary pressures also eased and manufacturers raised their purchasing activity during the month. Less positively, new export business declined at the fastest rate since April 2009 and employment in the sector continued to fall.

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 rose for the fourth month running in July to register 51.0, up from 49.1 in June. That was the first positive reading since October 2013. That said, the latest PMI figure remained below the long-run survey average of 51.9.

July data signalled a solid increase in Russian manufacturing output. The rate of expansion accelerated from June's marginal pace to the fastest since October 2013, and was also slightly stronger than the long-run survey average. Higher output and a further decline in input stocks led firms to raise purchasing volumes for the second month running, and at a faster rate. Despite the increase in output, stocks of finished goods continued to fall sharply.

New orders rose for only the second time in eight months in July. That said, the pace of expansion was weak, partly reflecting a further drop in new export business. New export orders fell for the eleventh month running, and at the fastest rate since April 2009.

Manufacturing backlogs declined at the strongest rate in five months in July, as production outpaced incoming new work. The volume of outstanding business has declined every month since March 2013. Spare capacity influenced hiring decisions, and manufacturing employment declined for the thirteenth month in a row in July.

Manufacturers reported increased average input prices in July, partly linked to higher import costs. That said, the rate of inflation eased further to a five-month low, and remained below the long-run survey average. Output prices rose at the slowest rate since October 2013, and one that remained weak in the context of historic survey data.

Comment

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

"The headline HSBC PMI Manufacturing Index moved to growth territory in July, for the first time this year. Output in manufacturing expanded strongly, outpacing only modest growth in new orders and ignoring a sharp contraction in export demand. This is a rather unusual combination of economic activity indicators. We can explain it with a reference to the inventory indicator that signalled significant destocking for the second month in a row. It appears that manufacturers previously trimmed their output stronger than the decline in demand for their goods that actually occurred. The resulting destocking allows producers to increase output more vigorously now responding to stronger than earlier expected customers' demand."

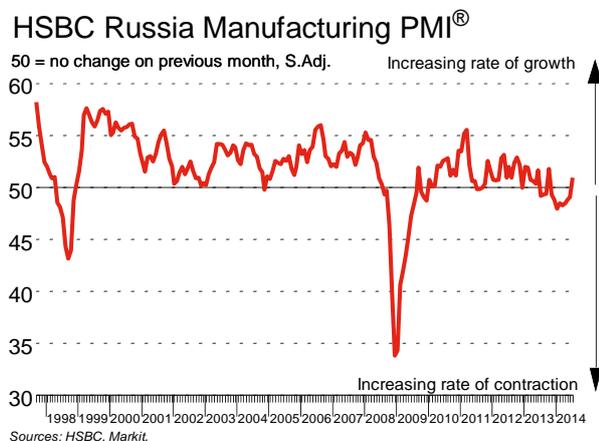
"It follows that the output recovery registered in manufacturing in July is fragile. Weak export demand is of a particular concern, in this respect. Together with the recent surge in geopolitical tensions, this will not allow manufacturers to sustain output growth in the coming months, we think."

"Meanwhile, PMI inflation indexes keep improving, showing that output prices growth eased to its 2H13 trend. This should translate into a moderation of consumer inflation in Russia going forward."

Key points

- Higher production and new orders push PMI above no-change mark for first time since October 2013
- New export orders contract at fastest rate since April 2009
- Manufacturers continue to shed staff

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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