

# HSBC Russia Manufacturing PMI®

## Russian manufacturing downturn eases in May

### Summary

HSBC PMI® data compiled by Markit continued to indicate a downturn in Russia's manufacturing sector in May. Output fell further, as did employment and new export orders, but total new work increased for the first time since last November. Cost pressures remained high, linked to the weak ruble exchange rate, and prices charged for final manufactured goods rose at the strongest rate since April 2011.

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 remained below the 50.0 no-change mark for the seventh consecutive month in May. That said, the PMI rose to 48.9, from 48.5, indicating the slowest overall deterioration in business conditions since November. The upward movement in the PMI mainly reflected the new orders component, which registered a positive contribution for the first time in six months. Output, employment and stocks of purchases continued to weigh on the headline figure.

The volume of new business received by Russian goods producers increased in May, following a five-month sequence of contraction. Consumer goods registered a solid increase during the month. That said, the overall rate of growth was only marginal, reflecting a further fall in new export orders. New work from export markets has declined continuously since September 2013, although the rate of reduction slowed in May to the weakest since the start of the year.

Output continued to decline, despite the resumption in new business growth. The rate of contraction was unchanged from April's marginal pace. Firms continued to complete existing work at a stronger rate than incoming new business, although backlogs declined at the weakest rate since March 2013.

With a lack of pressure on capacity, firms continued to shed staff mid-way through the second quarter. Manufacturing employment has fallen continuously since July 2013, and the rate of decline accelerated to the fastest in five months. Purchasing activity was broadly flat during the month, while firms linked longer supplier delivery times to import delays.

Input price inflation remained strong in May, but eased further from March's three-year peak. Firms continued to link upward pressure on input prices to the weak ruble exchange rate. Meanwhile, output price inflation accelerated for a record fifth successive month, to the highest since April 2011.

### Comment

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

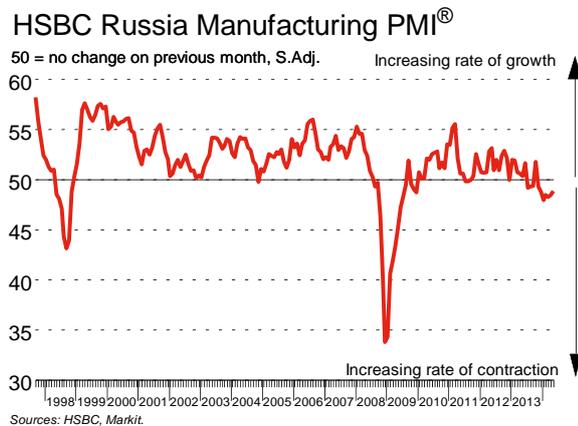
*"Manufacturing continued its downturn in May, the HSBC Russia Manufacturing PMI survey has revealed. The pace of output contraction remained moderate though and new orders increased for the first time in six months. The dynamics of new export orders improved, but remained negative. Price dynamics were mixed in May: input price inflation eased further, but remained high in the context of the past two years; the output prices index climbed to a new high in three years. Overall, the Manufacturing PMI survey slightly exceeds market expectations."*

*"A key finding of the May PMI is that a sharp fall in economic activity in manufacturing has been avoided. Importantly, Russian manufacturers do not report any strong negative impacts from the spike in geopolitical tensions on their business activity that potentially could have been significant. We think manufacturing will most likely be balancing between a small contraction and stagnation in the coming months. The recovery in new orders is encouraging in this respect. The recently improved PMI data on China point to a likely increase in demand for Russia's exports going forward."*

### Key points

- PMI remains below 50.0 but rises to six-month high
- Fractional increase in new orders offset by falling output and employment
- Output price inflation fastest since April 2011

### 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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### About PMI:

Purchasing Managers' Index<sup>™</sup> (PMI<sup>®</sup>) 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](http://www.markit.com/economics)

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