

HSBC Russia Manufacturing PMI®

Strongest deterioration in manufacturing business conditions since June 2009

Summary

Business conditions facing Russian manufacturers continued to worsen at the start of 2014, PMI® data from HSBC showed. The overall deterioration in the sector was the most substantial since June 2009, with declines registered for output, new orders, exports, employment and purchasing. Meanwhile, inflationary pressures remained historically weak overall, despite the impact of the weaker ruble feeding through to import prices.

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 registered below the 50.0 no-change threshold for the sixth time in seven months in January, indicating an ongoing downturn in business conditions in the Russian goods-producing sector. Moreover, the PMI declined from 48.8 to 48.0, the lowest reading since June 2009.

New orders continued to decline marginally in January, amid reports of weak underlying demand. The rate of contraction accelerated slightly to the fastest since July 2011, and international demand continued to weigh on total inflows of new work as new export business fell for the fifth month running. The current sequence of declining new export orders is the joint-longest in over four years.

Manufacturing output declined for the second time in seven months in January. The rate of contraction was moderate overall, but nonetheless the strongest registered since May 2009. Although output fell during the month, backlogs of work continued to drop sharply.

Russian goods producers shed staff for the seventh month in a row in January. Employment in the sector has now fallen 14 times in the past 15 months. That said, the rate of decline slowed from December's 52-month record in the latest period.

Purchasing of new inputs by manufacturers declined at the sharpest pace since May 2009, contributing to the equal-greatest improvement in suppliers' delivery times in the survey history. Meanwhile, stocks of purchases declined at the fastest rate in over four years.

Average input prices rose in January, partly linked by firms to the weaker ruble. This contributed to higher prices charged for final manufactured goods. Overall, however, inflationary pressures remained relatively weak.

Key points

- PMI slides to 55-month low of 48.0
- Output slips back into contraction as new orders continue to decline
- Manufacturers shed staff and cut input purchases

Comment

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

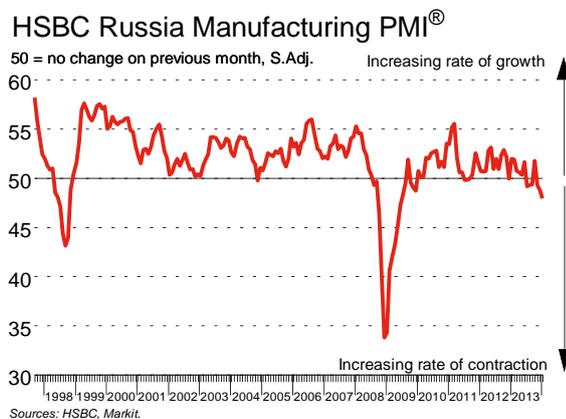
"Manufacturers started the year on a minor note, the January HSBC Russia Manufacturing PMI survey found. Indeed, all key economic activity indicators point to a broad-based contraction. Notably, manufacturing output decreased for the first time since July last year. In conjunction with the reported decline in new orders, ongoing cuts in staffing, faster suppliers' delivery times and a stronger rise in output prices, the overall picture in manufacturing looks pretty gloomy.

"Importantly, consumer goods producers reported falling output levels for the first time in many months. Apparently, a sharp moderation of demand growth caught them by surprise, forcing them to increase their inventories for now. Intermediate goods producers got some support from growth in export demand that allowed them to increase output amid declining domestic demand.

"Generalising the January PMI results, we see the Russian economy losing its key driver– private consumption growth. Investment demand has not recovered yet to become a new growth driver, while export demand for intermediate goods is not strong enough to offset weakness in the two other sectors.

"It follows that surprisingly benign official industrial growth data for December, indeed for 2013 as a whole, will unlikely be sustained in the beginning of 2014. Manufacturers face a serious risk of recession in the coming months, we think. Partial import substitution on the back of a weaker currency and improvement in export demand could mitigate this risk."

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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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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