HSBC Purchasing Managers' Index™ Press Release

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compiled by markit

HSBC Russia Manufacturing PMI®

PMI signals further modest deterioration of operating conditions

Summary

Operating conditions for Russian manufacturers remained challenging during April, particularly for those in the investment goods sector. Although overall output rose modestly, total new orders continued to fall. That was despite some manufacturers reportedly benefiting from import substitution amongst their clients.

The survey's headline HSBC Purchasing Managers' Index™ (PMI) – a composite indicator designed to give a single-figure snapshot of operating conditions in the manufacturing economy – remained inside negative territory during April. Posting below the 50.0 no-change mark for a fifth successive month, the PMI recorded 48.9, up from March's 48.1.

The new orders component of the PMI was the primary drag on the headline index in April. Total new work fell at the sharpest pace for nearly six years, although the contraction was principally centred on capital goods producers, where an especially sharp fall was registered. In contrast, consumer goods companies recorded solid growth.

Anecdotal evidence from panellists suggested that the economic environment remained tough, both at home and abroad. New export orders continued to fall markedly, extending the current period of contraction to twenty months.

That said, some manufacturers found that clients were undertaking a degree of import substitution and choosing to purchase where possible from Russian producers rather than those based abroad. This may in part reflect the high price of imports, which have risen in a relative sense following the marked depreciation of the rouble at the turn of the year. However, there were signs from the latest survey that these price impacts were dissipating. Having increased at a survey record-pace at the start of 2015, input price inflation continued to dramatically weaken in April, hitting a fifteen-month low. A similar trend was seen for output charges, which continued to increase but at the slowest pace for seven months.

Meanwhile, Russian manufacturers increased their output in April (albeit modestly). Growth enabled firms to reduce backlogs for a twenty-sixth successive month, although the reduction was the slowest seen in this sequence of contraction. Purchasing activity was also cut marginally, with companies choosing to lower stocks wherever possible in a bid to free-up cashflow at a time when working capital remained in shortage.

Finally, job losses were seen for a twenty-second month in a row. Although modest, there were reports of a desire to boost productivity and optimise efficiency amongst workers.

Comment

Commenting on the Russia Manufacturing PMI survey, Paul Smith, Senior Economist at Markit, said:

"April's survey offered a bit of a mixed-bag in terms of underlying Russian manufacturing performance.

"On the one-hand, production grew and would have probably risen a little further if it wasn't for a considerable reduction in capital goods output. Moreover, the rapid deceleration in price inflation coupled with a strengthening of the rouble offers hope that the manufacturing sector is getting back to a firmer footing following a difficult start to the year.

"However, the sharper drop in new orders – the biggest in nearly six years – undoubtedly puts a dampener on any positivity and suggests full recovery is unfortunately still a little way off."

Key points:

- Production rises modestly, but new orders down at a sharper rate
- Price indices fall sharply to signal much slower inflation
- Focus on cost-rationalisation and higher productivity leads to modest job losses

Historical Overview

Sources: HSBC, Markit.

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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