

HSBC Russia Manufacturing PMI®

Russian manufacturing downturn continues in February

Key points

- PMI remains below 50.0 for fourth successive month
- Strongest decline in new orders since May 2009
- Employment falls for eighth month running

Summary

The current period of decline in Russia's goods-producing sector was extended to a fourth month in February, PMI® data from HSBC showed. The overall rate of deterioration in the sector eased since January on the back of slower falls in output and employment, as well as longer suppliers' delivery times. However, new orders declined at the fastest rate since May 2009.

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 posted 48.5 in February, up from 48.0 but the fourth successive sub-50.0 reading and indicative of a moderate deterioration in operating conditions. The PMI has been in negative territory seven times in the past eight months, and the latest figure was the second-lowest since July 2009. Weighing on the headline figure in February were lower output, new orders, employment and stocks of purchases. The only positive contribution was from suppliers' delivery times, which lengthened marginally over the month.

New orders fell for the third month running in February. Moreover, the rate of decline was the fastest since May 2009, with new contracts at consumer goods producers falling sharply. The volume of new export orders declined for the sixth month running, and at a stronger rate than in January.

Falling receipts of new work impacted on production which declined for the second month running in February, albeit at a slower rate. Meanwhile, backlogs of work continued to decline sharply.

Faced with lower output requirements, Russian goods producers continued to cut staff in February. The current sequence of workforce reduction was extended to eight months, although the latest rate of decline was the lowest over this period. The volume of purchasing activity also fell, for the fourth month running.

Inflationary pressures rose in February, mainly linked by firms to the effect of the weaker ruble on the price of imported raw materials. Average input prices increased at the fastest rate since September 2012, while output price inflation hit a 16-month high. That said, in both

cases the rate of inflation remained weaker than the long-run survey average.

Comment

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

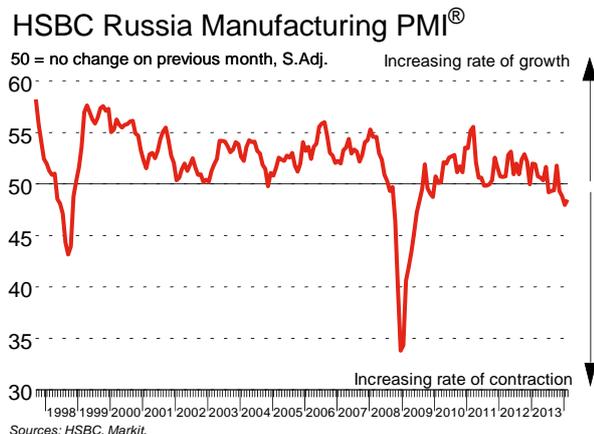
"Results of the February HSBC Russia Manufacturing PMI survey disappoint. While the headline PMI Index edged up, it still remained below 'the waterline'. Highly concerning is that both domestic and export demand has eased, with the New Orders Index extending a sequence of the below 50 points readings to three months. Investment goods manufacturers seem to lose patience in waiting for the demand recovery. They reported about a sharp output contraction in order to clean their warehouses. In contrast, consumer goods manufacturers marginally increased output in February, yet faced an apparently surprising fall in demand and ended up with higher inventories of unsold goods. Both findings are worrisome, pointing to still missing investment demand and the likely further easing of consumer goods output growth."

"The reported marked acceleration of input and output prices growth in manufacturing adds to this bleak picture. Respondents referred to the pass-through effect to costs and output prices from weaker currency and the associated rise in inflationary expectations in the manufacturing sector. Producers seem to be partially absorbing higher costs; yet they still increase their output prices relatively fast despite the declining demand. In essence, this signals a further decline in domestic demand in the coming months."

"Thus, so far we do not observe any signs of import substitution in manufacturing on the back of the rouble weakening. In contrast, the faster rise in prices weighs on demand and output in this sector of the economy. This is a surprising finding that contrasts the prevailing expectations about an impact of weaker currency on the economy. At the same time, this finding provides an argument for policy rate hike, in our opinion."

"It is highly likely that manufacturing will post negative output growth in 1Q, both on a quarterly and annual basis, we think. With such a weak start to the year, Russian industry risks a failure to grow this year."

Historical Overview



For further information, please contact:

HSBC

Julia Molchanova, Corporate Communications
Telephone + 7 495 721 1515
Email julia.molchanova@hsbc.com

Markit

Trevor Balchin, Senior Economist
Telephone +44-1491-461-065
Email trevor.balchin@markit.com

Alex Brog, Corporate Communications
Telephone +44-20-7264-7602
Email alex.brog@markit.com

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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