HSBC Purchasing Managers' Index™ Press Release

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compiled by markit

HSBC Russia Manufacturing PMI®

New orders continue to grow strongly despite export weakness

Summary

Growth momentum in the Russian manufacturing sector was broadly maintained in February, while inflationary pressures weakened further, HSBC PMI® data compiled by Markit showed. New orders rose at a strong rate, while growth of purchasing activity accelerated. Firms increased output but cut staffing slightly, suggesting productivity gains in the sector.

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. Readings above 50.0 indicate an overall improvement in business conditions, below 50.0 an overall deterioration. The PMI was unchanged in February, posting 52.0. That was the sixteenth positive reading in the past 17 months, and broadly in line with the survey's historic average of 52.1.

Manufacturing new order growth eased slightly in February, but remained strong. The current sequence of expansion now stretches to 17 months, and the rate of growth in the latest period was the third-fastest over this cycle. Data indicated that domestic markets drove new business growth, as new export orders stagnated during the month, continuing the flat underlying trend shown since the second half of last year.

Manufacturing output registered another moderate increase in February, at a rate that was slightly weaker than in the opening month of 2013 and broadly in line with the average for 2012. Meanwhile, backlogs of work were unchanged, having risen in January for the first time since September 2006.

Russian goods producers prepared for new business by increasing their purchases of new inputs at the fastest rate since November. The pace of growth was also stronger than the long-run survey average. Despite this, suppliers' delivery times lengthened at a less marked rate during the month.

Manufacturers in Russia cut employment levels on average in February, extending the current sequence of job shedding to four months. This is the longest spell of the past three years, although the rate of decline in the latest period was only marginal.

Input prices paid by Russian goods producers rose at the weakest rate since June 2012. The rate of inflation also remained much lower than the historic survey average. Meanwhile, prices charged for final goods fell slightly during the month, the first reduction since February 2012.

Comment

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

"Contrasting the official data on industrial production that revealed output contraction in January, the HSBC Russia Manufacturing PMI surveys found that manufacturing sustained positive growth momentum in both January and February, with output growth remaining broadly in line with the average growth in 2011-12. In this respect, cruise control is on in manufacturing.

"Structurally, domestic demand has intensified recently at the expense of export demand that fails to resume growth. Probably fearing of possible demand weakness, manufacturers kept shedding labour and decreasing inventories. Besides, reduced cost pressures have allowed companies to marginally decrease output prices that may be considered as a measure to win more customers.

"Our key take away from the February PMI is as follows. Manufacturing is still alive and keeps growing moderately, but fears of uncertain outlook weigh on the sector performance. In our opinion, these fears are somewhat exaggerated, although stagnating export demand gives reasons for concern. Unfortunately, fewer calendar days in February this year compared to February 2012 will most likely prompt another weak industrial production reading for February despite quite benign PMI release."

Key points

- New business expansion remains sharp on back of domestic demand
- New export orders stagnate
- Jobs decline for fourth successive month

Historical Overview

Sources: Markit, HSBC.

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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