

# HSBC Russia Manufacturing PMI®

## Operating conditions remain challenging in March

### Summary

The Russian manufacturing sector registered a modest deterioration in operating conditions during March as production and new business both recorded mild declines. Employment also fell, but at a weaker rate with consumer goods producers recording modest growth. There was some positive news on the inflation front, as input and output prices continued to rise, but to much slower degrees than seen at the start of the year.

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. In March, the headline index slipped to 48.1, down from 49.7 and indicative of a modest deterioration in operating conditions. The PMI has registered below the 50.0 no-change mark for four months in a row.

Amid a number of reports of challenging economic conditions, March's survey signalled modest reductions in output and new orders, reversing the growth seen during the preceding month. Any demand weakness seemed to primarily emanate from external sources (new export orders fell sharply during March), with the latest data suggestive of some stability in domestic markets. In contrast to intermediate and investment goods producers, manufacturers of consumer goods registered modest growth in total new business.

Latest data showed that backlogs of work continued to fall during March, indicative of some excess capacity in the Russian manufacturing sector. However, the degree to which backlogs fell was again much slower than January's considerable rate, and broadly in line with the survey average.

With tentative evidence of an unwinding of the overcapacity seen earlier in the year, employment was also cut to a smaller degree during March. Latest data indicated that the overall rate of contraction was the weakest for seven months and there was even an increase in staffing numbers seen at investment goods producers. This reflected some positive output projections amid evidence of recent tender wins.

On the price front, input costs continued to increase markedly during March, but at a much slower rate than January's multi-year peak. While currency exchange rates remained broadly unfavourable, these were reported in a number of cases to be less of a problem than earlier in the year. Cost inflation was subsequently the weakest since October.

Average output charges were raised to protect margins during March, but in line with slower input price increases the rate of inflation plunged to the lowest for four months.

Finally, Russian manufacturers signalled a third successive monthly fall in purchasing activity amid some reports of working capital shortages and reduced production requirements owing to the mild drop in total new orders. Efforts to utilise existing stock were also noted, and inventories of purchases were cut to the sharpest degree for nearly six years.

### Comment

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

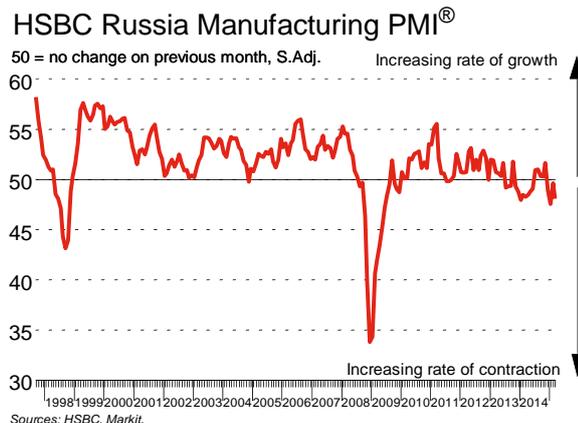
*"March's survey data indicated that operating conditions remained challenging overall, with output, new orders and employment all posting modest falls. Access to working capital also remains a hurdle to overcome for a number of manufacturers."*

*"That said, some panellists indicated positive growth projections and in a number of cases added to their workforces. With inflation falling back sharply over the month, there is hope of at least near-term stability."*

### Key points

- Mild drops in output and new orders recorded
- Spare capacity remains, but workforce numbers cut to weaker degree
- Rates of input and output price inflation both drop sharply

### 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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