

Russia & Eastern Europe

Emerging European manufacturing recovery driven by exports, but continued to lag behind Asian growth

Key findings

- Recovery of emerging Europe gained momentum in April...
- ...reflecting resurgent export demand.
- But regional growth as a whole still much weaker than Asian economies.

The latest manufacturing PMI data, compiled by Markit for HSBC and VTB Capital and covering emerging markets in Eastern Europe and Asia, showed production in the emerging European¹ manufacturing sector rose at the fastest rate since June 2007. Growth meanwhile slowed slightly in emerging Asia² but nevertheless remained stronger than in emerging Europe. The relative weakness of emerging Europe can be linked to the sluggish recovery in Russia, which accounts for approximately 44% of output among the five countries covered.

Manufacturers in the EU economies of Poland, the Czech Republic and Hungary all registered strengthening business conditions in April (albeit at a weaker pace in the latter). The Czech Republic posted the fastest rate of expansion, one which sharpened since March to its highest since March 2008. Polish output growth remained robust, but has failed to gain momentum in 2010 to date. Hungarian PMI data (not compiled by Markit³) signalled a sharp slowdown in growth in April.

The generally upbeat trends portrayed by the PMIs in recent months have been confirmed by the subsequent publication of official data. Official industrial output data for March beat market expectations in Poland and the Czech Republic. Industrial production increased by 12.3% yr/yr in Poland, beating expectations of 9.6%. In

Chart 1: Emerging Markets: Europe vs Asia

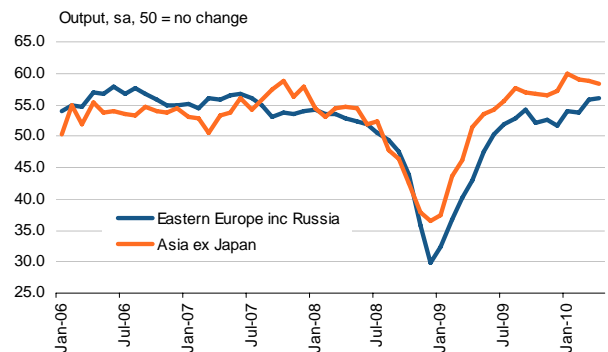


Chart 2: Emerging Europe breakdown

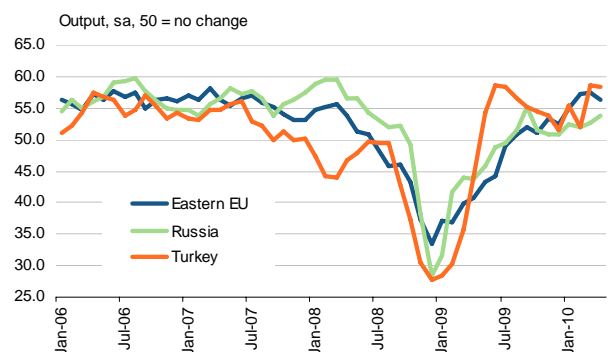
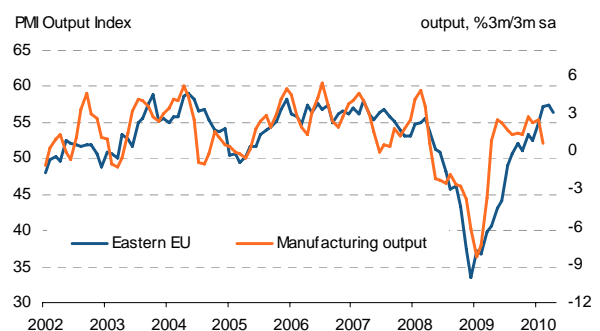


Chart 3: PMI Output Index⁴ vs official data⁵



Sources: Markit, Eurostat.

¹ Poland, Czech Republic, Hungary, Turkey, Russia.

² China, India, Taiwan, S Korea, Turkey, Singapore.

³ The Hungarian PMI is produced by the Hungarian Association of Logistics, Purchasing and Inventory Management (HALPIM) and the Hungarian National Bank. The Hungary PMI data are compiled using a different methodology to Markit PMI data, and are included for comparative purposes only.

⁴ Output Index calculated from Polish, Czech and Hungarian PMI data.

⁵ Bulgaria, Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Romania.

the Czech Republic, output rose by 5.3%, surpassing a forecast of 8.5%. However, in Hungary the annual rate of growth weakened below expectations to 2.8%, from a revised 8.1% gain in February.

Export-reliant manufacturers benefitting from foreign demand

Markit PMI data for the export-reliant manufacturing sectors of the Eastern EU underline the role exports have played in stimulating industrial recovery in 2010. In the Czech Republic, new export orders rose at a survey-record pace in April. Even in Poland, less dependant on external demand due to its large domestic market, the new export orders index remained above its pre-crisis trend level in April, despite easing since March's near three-year peak.

PMI data suggest that official figures covering exports will strengthen further in the coming months. In February, exports of Polish manufactured goods rose by only 0.9% compared to a year earlier, but the PMI data suggest annual growth is set to return to double figures. Meanwhile, Czech exports of manufactures rose 8.2% year-on-year in March – again, the PMI data are signalling upward momentum.

Russian services growth accelerated

While Russian manufacturing performance remained weak compared to the regional trend, services PMI data signalled that a wider private sector economic recovery was taking hold in April. Services activity rose at the fastest rate since July 2008 (with the Business Activity Index higher than the global average), while companies in the sector were at their most optimistic regarding future activity levels since November 2006. Taken together, the Russian manufacturing and service sector PMI data point to the strongest rate of growth since July 2008.

Russia's economy as a whole is set to grow more strongly than that of Central & Eastern Europe in 2010, according to the International Monetary Fund, as the resource-rich country benefits from rising oil and commodity prices. The IMF is forecasting growth of 4.0% in 2010, while GDP growth in Central & Eastern Europe is expected to grow 2.8%. However, as the PMIs suggest, the region as a whole is set to be easily outpaced by Developing Asia, where the latest IMF estimate is for 8.7% expansion – largely driven by usual suspects China and India.

Chart 4: Poland PMI vs exports

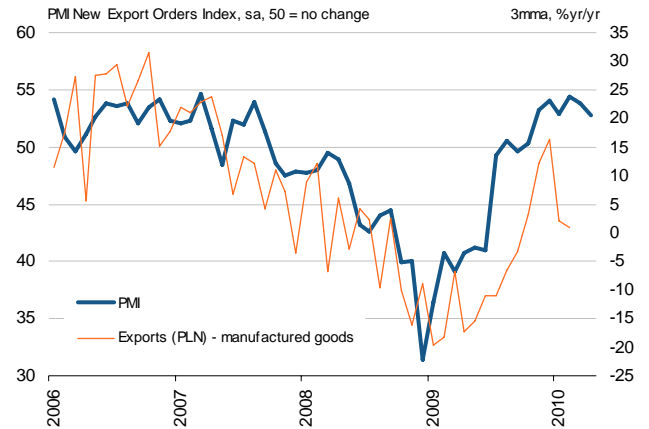


Chart 5: Czech Republic PMI vs exports

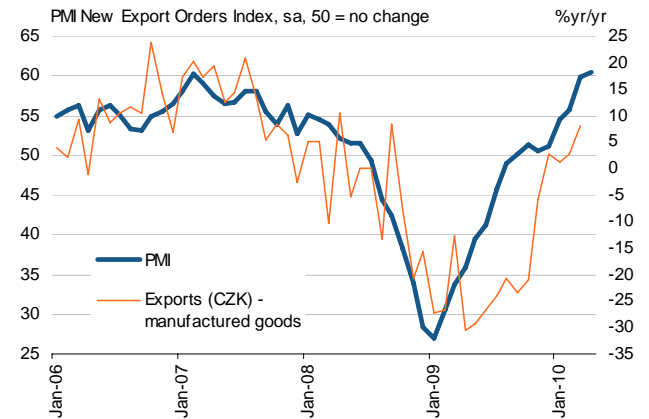
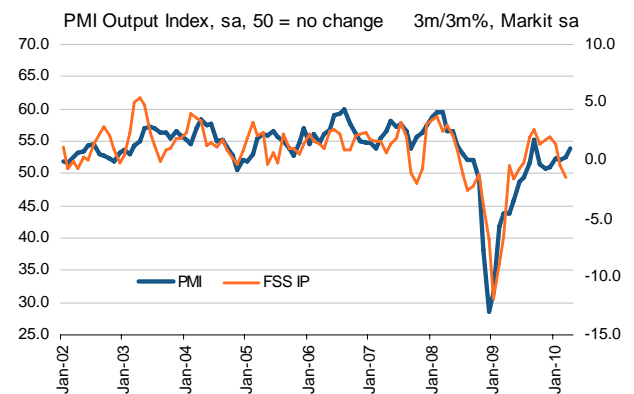


Chart 6: Russia Manufacturing Output Index



Sources: Markit, Eurostat, FSS.

Forthcoming data (May):

- 1 June: VTB Capital Russia Manufacturing PMI
- 1 June: HSBC Turkey Manufacturing PMI
- 1 June: HSBC Poland Manufacturing PMI
- 1 June: HSBC Czech Republic Manufacturing PMI
- 3 June: VTB Capital Russia Services PMI

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