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HSBC Russia Manufacturing PMI™

Manufacturing sector achieved faster overall expansion in August, despite heatwave.

Key findings:

- PMI rose to 28-month high of 52.9.
- Fastest increase in new orders since April 2008, despite sharper decline in new export contracts.
- Output prices rose at fastest rate in over two years.

HSBC survey data covering the Russian manufacturing sector showed a further overall improvement in business conditions in August. Moreover, the pace of improvement strengthened slightly, driven by the fastest increase in new orders since April 2008. However, partly linked to the recent heatwave, output rose at the slowest rate in three months and employment growth eased to a negligible pace. August data also signalled a sharp acceleration in output price inflation in the manufacturing sector.

The headline figure from the survey is the seasonally adjusted HSBC Russia Manufacturing PMI™, a composite index designed to track overall business conditions. Any figure greater than 50.0 signals improvement, below 50 contraction. The latest figure of 52.9 was the highest since April 2008, and represented an eighth successive month of overall improvement. It also compared favourably with the long-run survey average of 52.1.

The PMI is calculated from five survey variables – new orders, output, employment, suppliers' delivery times and stocks of purchases. The modest upward movement in the headline figure in August reflected more favourable contributions from new orders, suppliers' delivery times and stocks of purchases.

The volume of new orders received by Russian manufacturers rose at the fastest rate for twenty-eight months in August. The latest expansion was the fifth in successive months, and growth strengthened despite a second straight monthly

decline in new export business.

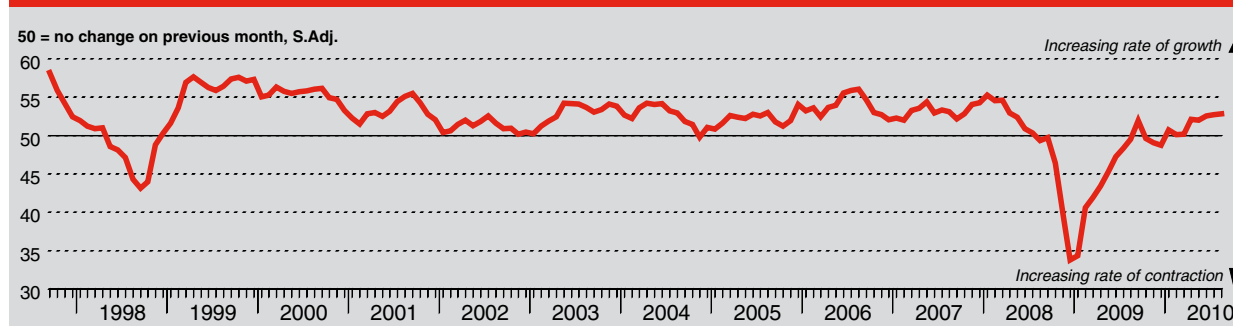
Manufacturing production rose for the thirteenth month running in August. After adjusting for seasonal factors, the rate of growth eased to a three-month low, partly reflecting the effect of the recent heatwave. That said, the pace of expansion was solid overall, and greater than the long-run survey average. Backlogs of work also continued to fall, suggesting that spare capacity in the sector remained.

The rate of growth in Russia's manufacturing workforce slowed to a negligible pace in August. Staffing has risen overall in only four of the past twenty-nine months.

Russian manufacturers continued to report longer supplier delivery times on average in August. The rate at which delays increased was the fastest since November 2007, reflecting shortages of raw materials and, in some cases, difficulties at customs points. The latest lengthening of delivery times also reflected the fastest growth in purchasing activity in the sector since February 2008.

The survey provided signs of rising inflationary pressures in August. Average input prices increased at a faster rate, mainly linked to higher oil, metals and food prices. Rising raw material costs fed through to output prices, which increased at the fastest rate for two over years. More than one-fifth of the survey panel reported higher charges for their goods in August.

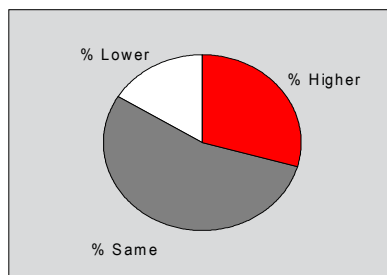
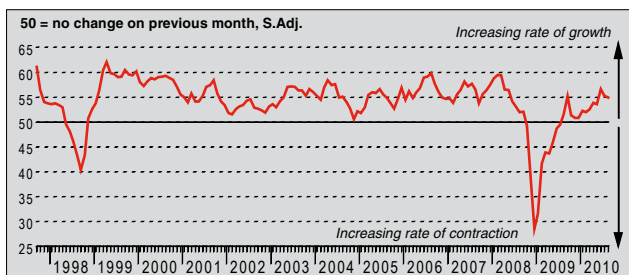
HSBC Russia Purchasing Managers' Index (PMI™)



The HSBC Russia Purchasing Managers' Index™ (PMI™) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, employment, suppliers' delivery times and stocks of goods purchased. A reading of the PMI below 50.0 indicates that the manufacturing economy is generally declining; above 50.0, that it is generally expanding. A reading of 50.0 signals no change. The greater the divergence from 50.0, the greater the rate of change signalled by the index.

Output Index

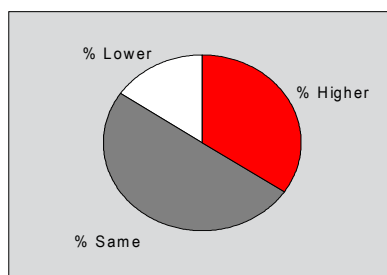
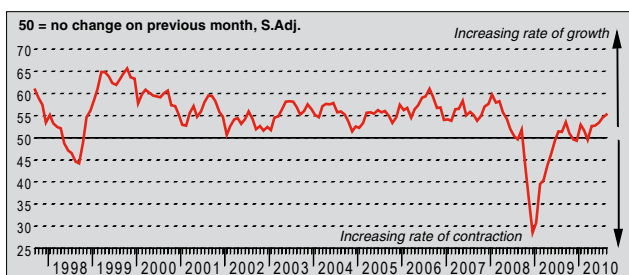
Q. Please compare your production/output this month with the situation one month ago.



Russian manufacturing production continued to rise in August. Firms primarily attributed higher output to rising new order volumes. The current sequence of expansion now stretches to thirteen months. However, the seasonally adjusted Output Index eased on the month, to indicate the weakest rate of growth since May. Some panellists mentioned the recent heatwave as a reason for lower production during the month.

New Orders Index

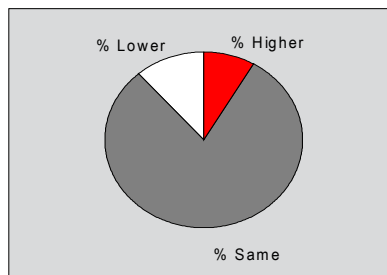
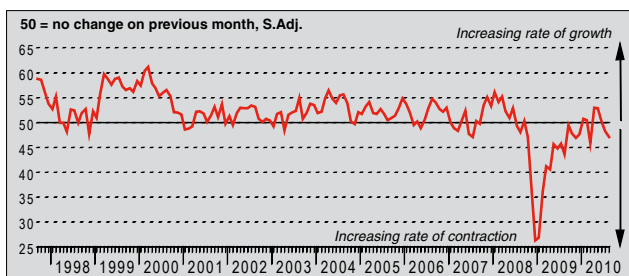
Q. Please compare the level of new orders received this month with the situation one month ago.



Growth of incoming new work in the Russian manufacturing sector was maintained for a fifth successive month in August. Moreover, the seasonally adjusted New Orders Index rose since July, and the latest figure signalled the fastest rate of expansion since April 2008. Firms reported an ongoing recovery in underlying domestic demand.

New Export Orders Index

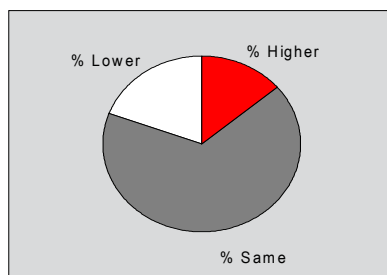
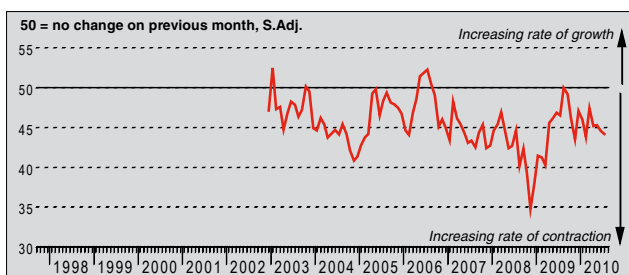
Q. Please compare the level of new export orders received this month with the situation of one month ago.



August marked a second successive monthly drop in the volume of new orders received from export markets. The seasonally adjusted New Export Orders Index fell on the month, signalling a faster rate of decline. New export business has contracted three times in 2010 so far. Still, around four-fifths of survey respondents reported no change in new export contracts compared to one month previously.

Backlogs of Work Index

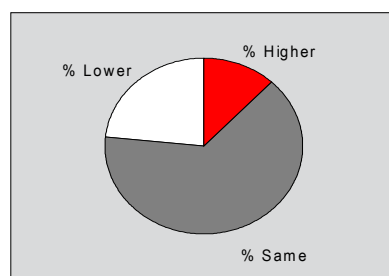
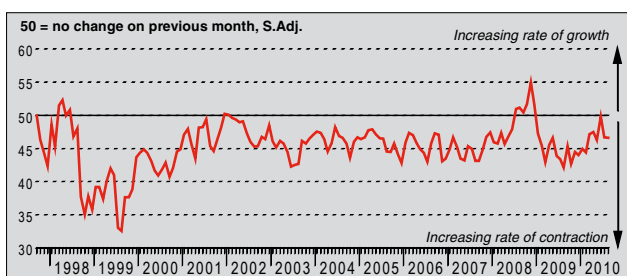
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



The seasonally adjusted Backlogs of Work Index remained well below the no-change mark of 50.0 in August, signalling a further drop in incomplete work in the Russian manufacturing sector. The latest figure signalled the fastest rate of contraction since March, and remained below the trend level recorded since the series began in January 2003. Backlogs have fallen continuously since last October.

Stocks of Finished Goods Index

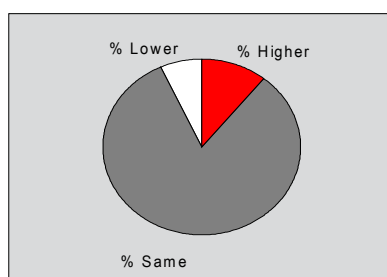
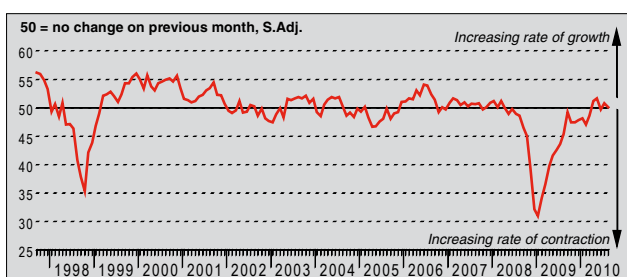
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



The overall level of final products held in stock at Russian manufacturers declined in August, extending the current sequence of contraction to twenty months. The seasonally adjusted Stocks of Finished Goods Index fell further from June's eighteen-month high, and signalled the fastest rate of contraction since May. Where stocks fell compared to one month previously, this was mainly reported to have been the result of rising sales shipments as demand improved.

Employment Index

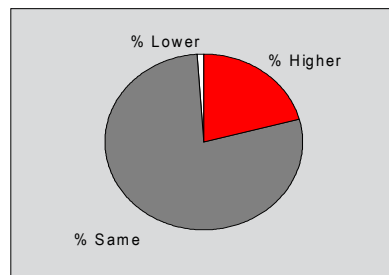
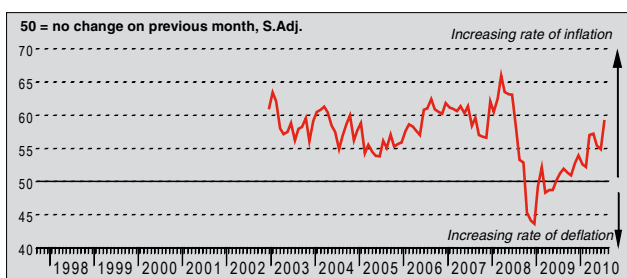
Q. Please compare the level of employment at your unit with the situation one month ago.



Manufacturing employment growth in Russia stagnated in August. The seasonally adjusted Employment Index fell to a level only just higher than the neutral 50.0 mark, signalling a very marginal rate of job creation. Workforces have expanded on average four times in the past five months, following a near two-year period of falling employment. Around 82% of the survey panel reported no change in staffing compared to July.

Output Prices Index

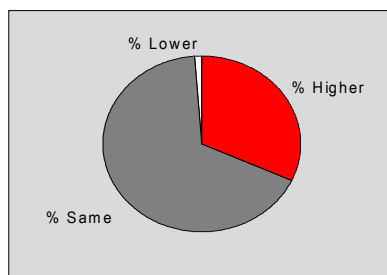
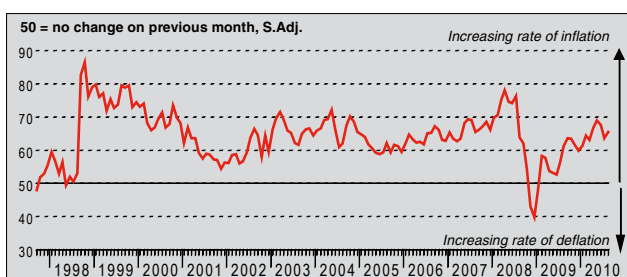
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



August data signalled a sharp rate of inflation for prices of Russian manufactured goods. The seasonally adjusted Output Prices Index has remained above the no-change mark of 50.0 for fourteen months running. More than one-fifth of survey respondents reported higher charges, and the overall rate of inflation was the strongest since July 2008. Firms mainly linked higher output prices to rising input costs, particularly from metals and food prices resulting from the drought.

Input Prices Index

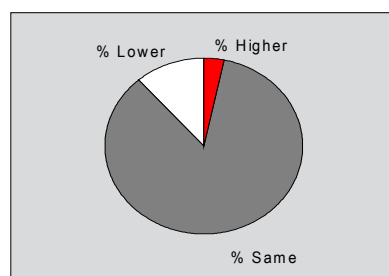
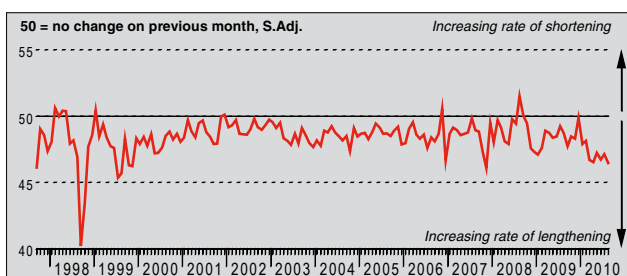
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



The seasonally adjusted Input Prices Index rose in August, to signal growing inflationary pressures in Russia's manufacturing sector. Almost 32% of firms reported higher input costs during the month, versus around 1% that saw prices fall. According to survey respondents, sources of inflationary pressure on costs included metals, oil-related products and the effects of the drought on foodstuffs. The Index was greater than its long-run average level during the latest period, but weaker than the trend seen during Q2.

Suppliers' Delivery Times Index

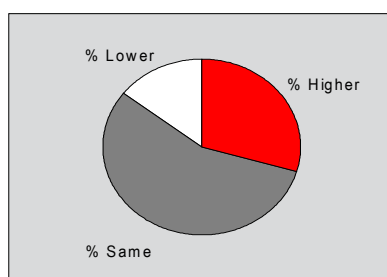
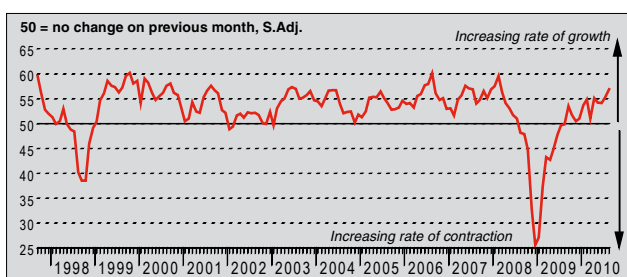
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



The seasonally adjusted Suppliers' Delivery Times Index moved further below the no-change mark of 50.0 in August, indicating worsening supplier delays in the Russian manufacturing sector. The degree of lengthening was the greatest since November 2007. According to the latest anecdotal evidence provided by panellists, longer delivery times reflected input shortages and delays at customs control points. Suppliers' delivery times have lengthened on average in every month since October 2008.

Quantity of Purchases Index

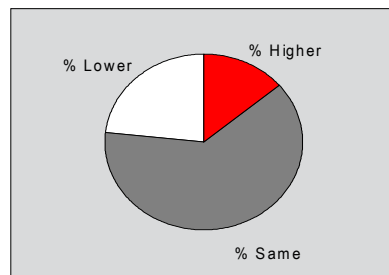
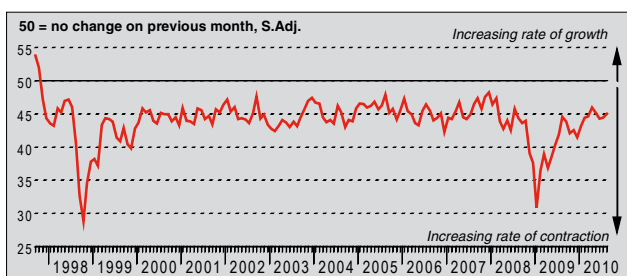
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Purchasing activity rose strongly in August. Average input volumes have now risen continuously for one year. Moreover, the seasonally adjusted Quantity of Purchases Index rose on the month, to signal the fastest rate of expansion since February 2008. The main reasons given for expanded purchasing activity were rising production and new orders. A number of firms reported that they had also sought to boost stocks in expectation of higher prices for raw materials in the future, notably foodstuffs.

Stocks of Purchases Index

Q. Please compare your stocks of purchases (in units) with the situation one month ago.



The overall level of inputs held in stock at Russian manufacturers declined further in August, in line with the survey's historic trend. Around 23% of firms reported lower inventory holdings during the month, compared to 14% that saw growth in stocks. The seasonally adjusted Stocks of Purchases Index signalled the slowest rate of decline since May, but still a solid pace overall. Some firms linked lower inventories to insufficient working capital and productivity drives.

Notes on the Data and Method of Presentation

The Purchasing Managers' Index™ 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.

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