

HSBC Russia Manufacturing PMI™

Manufacturing sector achieved faster overall expansion in August, despite heatwave

Summary

HSBC survey data covering the Russian manufacturing sector showed a further overall improvement in business conditions in August. 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.

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.

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 continued to fall.

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, difficulties at customs points and 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.

Comment

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

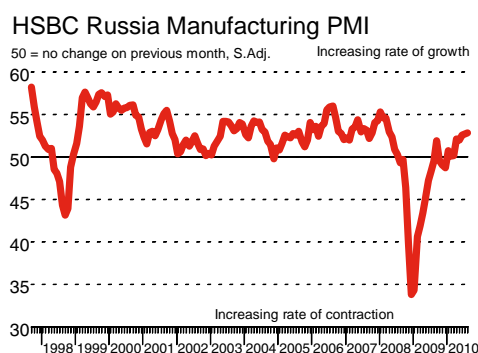
"After a recent flow of disappointing macroeconomic data, Manufacturing PMI improving to its 28-month high gives grounds for some optimism as growth of new orders kept accelerating while backlogs of work and stocks of finished goods have speeded up their decline. It points to strong demand. The recent heatwave has indeed had an adverse impact on output yet not very strong. Overall, the manufacturing sector keeps shifting from the export-led growth to domestic demand-driven growth. Yet, further decline in export orders sheds concerns about sustainability of purely domestically-driven growth in manufacturing.

"Inflationary pressures have intensified further in August. Firms reported rising costs of metals, oil products and foodstuffs being the sources of inflationary pressures. Input Prices Index has increased staying above its long-run average level. Importantly, in August firms reported their stronger ability to pass-on pressures on their customers as Output Prices Index has jumped to its highest level since July 2008. Against such a backdrop, the recent acceleration of consumer price growth appears likely to be sustained."

Key points

- 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.

Historical Overview



For further information, please contact:

HSBC

Alexander Morozov, Chief Economist (Russia and CIS)
Telephone +7 495 783 8855
Email alexander.morozov@hsbc.com

Catherine Dorofeeva (Maslov PR)
Telephone +7 495 981 06 09
Email hsbc@maslov-pr.com

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

Maria Yelyutina
Telephone + 7 495 721 1515
Email maria.yelyutina@hsbc.com

Markit

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

Caroline A. Lumley, Director, Corporate Communications
Telephone +44-20-7260-2047
Email caroline.lumley@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.

HSBC:

Headquartered in London, HSBC is one of the largest banking and financial services organisations in the world. Its international network comprises some 8,000 offices in 87 countries and territories in Europe; Hong Kong; Rest of Asia-Pacific; the Middle East; North America and Latin America. With assets of US\$2,418 billion at 30 June 2010, HSBC is one of the world's largest banking and financial services organisations. HSBC is marketed worldwide as 'the world's local bank'.

HSBC Group operates in Russia through OOO HSBC Bank (RR). HSBC Russia provides a wide range of corporate banking, investment banking and financial markets products and services to corporate and institutional customers. In June 2009 HSBC Russia launched the bank's world-class retail offering. Private banking services with an access to global HSBC resources are provided in Russia through HSBC Private Bank Moscow office.

About Markit:

Markit is a leading, global financial information services company with over 1,900 employees. The company provides independent data, valuations and trade processing across all asset classes in order to enhance transparency, reduce risk and improve operational efficiency. Its client base includes the most significant institutional participants in the financial market place. For more information, see www.markit.com.

About PMIs:

Now available for 26 countries and key regions including the Eurozone and BRIC, Purchasing Managers' Indexes™ (PMIs™) have become 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.

The intellectual property rights to the HSBC Russia Manufacturing PMI provided herein is owned by Markit Group Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Markit, PMI and Purchasing Managers' Index are all trademarks owned by The Markit Group.