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HSBC Russia Manufacturing PMI™

Rate of improvement in manufacturing business conditions eased in September.

Key findings:

- Output growth slowed to six-month low.
- Employment fell marginally.
- Output price inflation highest since July 2008.

HSBC survey data covering the Russian manufacturing sector signalled sustained growth in September. However, momentum eased to the slowest in six months, reflecting weaker gains in both output and new orders. Meanwhile, employment fell marginally for the first time in three months.

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 PMI remained above the 50.0 no-change value in September, posting 51.2. However, this was the lowest figure since March, and below the long-run trend (since September 1997) of 52.1. The fall in the PMI reflected weaker contributions from all five of its components, namely new orders, output, employment, suppliers' delivery times and stocks of purchases.

New orders taken by Russian manufacturers rose for the sixth month running in September. However, the rate of expansion slowed to the weakest in the current period of expansion. Demand was notably weak in international markets as new export business declined for the third month running, and at the fastest pace since March.

Reflecting overall growth of new work, production in Russia's manufacturing sector rose in September. The current run now stretches to fourteen months, but the rate of expansion in the latest period was the slowest since March.

September survey data indicated a lack of pressure on capacity in the manufacturing sector. Firms cut workforces on average for the second time in four months, albeit only marginally, while backlogs of work declined. The rate of contraction in outstanding business was unchanged from August's marked pace.

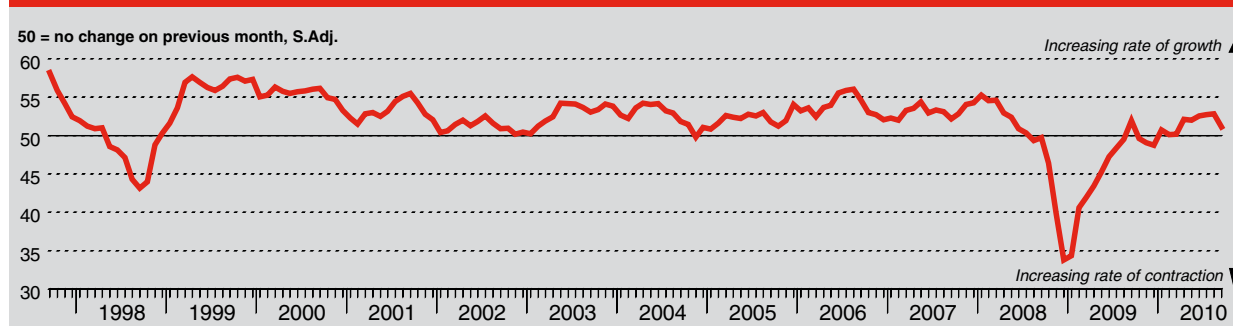
Inflationary pressures intensified in September. The rate at which average purchase prices increased was the second-fastest in the current twenty-month sequence of rising costs. Metals and foodstuffs were often reported as having become more expensive during the month. Input price inflation was greater than the long-run survey trend in September.

Output prices rose at the fastest rate since July 2008. Prices charged by Russian manufacturers have increased every month since July 2009. Firms mainly reported raising their prices in response to greater cost pressures.

In line with weaker growth of both output and new orders, the rate at which purchasing volumes increased slowed in September. Input buying expanded at the weakest rate since March, contributing to a sharper decline in warehouse stocks of pre-production goods.

Despite the weaker rise in purchasing activity by Russian manufacturers during September, suppliers' delivery times continued to increase. This reflected shortages of raw materials, the effect of recent wildfires and delayed imports.

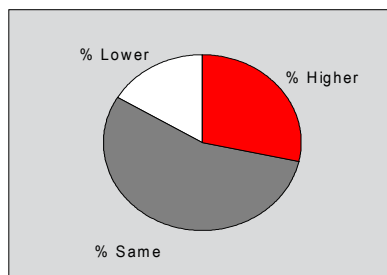
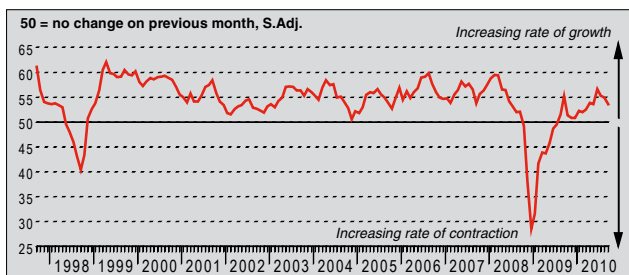
HSBC Russia Purchasing Managers' Index (PMI™)



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

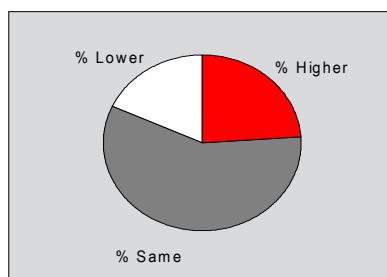
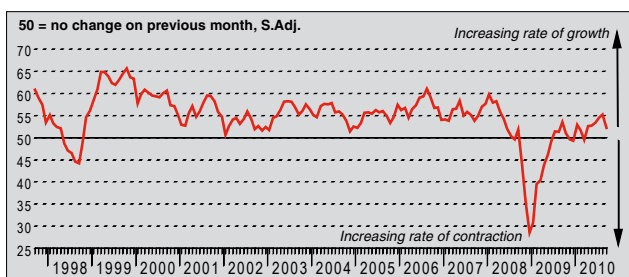
Q. Please compare your production/output this month with the situation one month ago.



Growth of Russian manufacturing production was sustained for the fourteenth successive month in September. This was primarily linked by survey respondents to rising new orders. However, the rate of expansion slowed for the third month running. The seasonally adjusted Output Index fell to its lowest in six months, and was below its long-run trend level of 54.3. Some firms reported that input shortages had held up production during the latest period.

New Orders Index

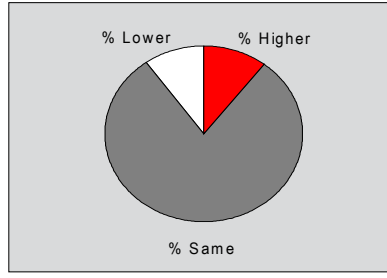
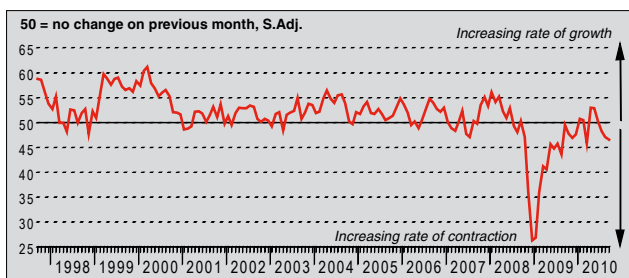
Q. Please compare the level of new orders received this month with the situation one month ago.



The volume of incoming new work received by Russian manufacturers rose for the sixth successive month in September. Firms linked higher new work to improved demand, the winning of new clients and expanded product ranges. That said, the rate of expansion retreated from August's twenty-eight month high. The seasonally adjusted New Orders Index signalled the weakest rate of growth in the current period of expansion.

New Export Orders Index

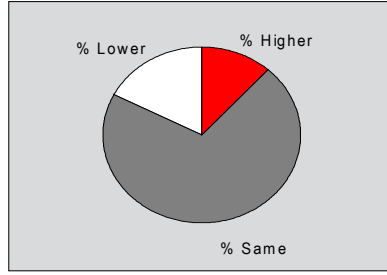
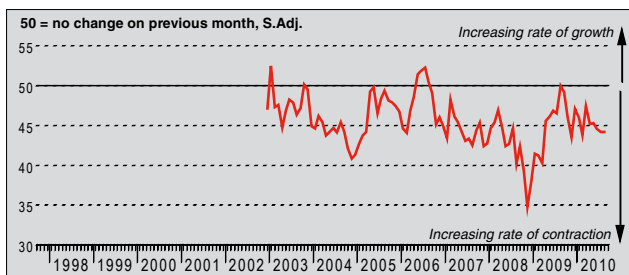
Q. Please compare the level of new export orders received this month with the situation of one month ago.



The seasonally adjusted New Export Orders Index remained below the no-change mark of 50.0 in September, signalling a third successive monthly reduction in new export business received in Russia's manufacturing sector. Moreover, the rate of contraction accelerated to its sharpest since March.

Backlogs of Work Index

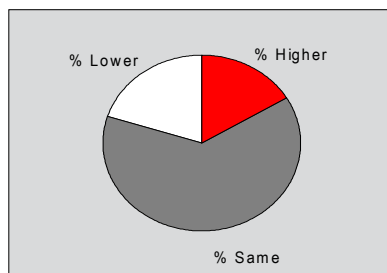
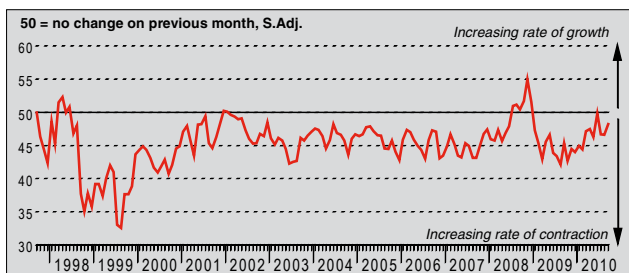
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



The latest survey data signalled further evidence of excess capacity in the Russian manufacturing sector, as backlogs of work continued to decline. The seasonally adjusted Backlogs of Work Index was unchanged from August's five-month low, indicating a sharp rate of contraction. The current sequence of decline now stretches to twelve months. A number of survey respondents linked lower outstanding business to slower inflows of new orders.

Stocks of Finished Goods Index

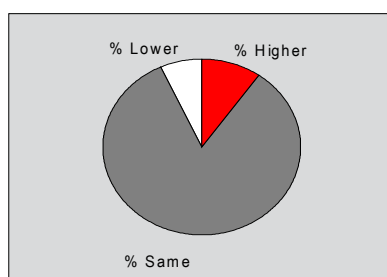
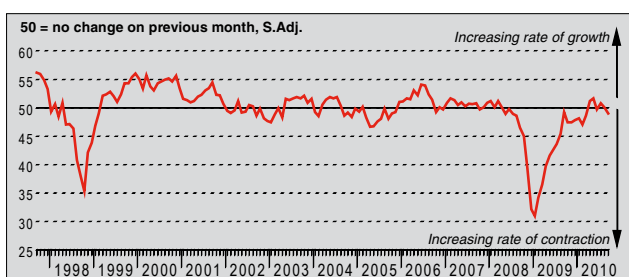
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Inventories of final products at Russian manufacturers declined for the twenty-first month running in September. Lower warehouse stocks were most commonly linked to the non-replacement of shipments, reflecting slower growth of output during the month. That said, the seasonally adjusted Stocks of Finished Goods Index moved closer to the no-change mark of 50.0 during the month, to indicate only a modest rate of contraction. Around one-in-five firms reported lower stocks, compared to 16.4% that stated inventories had expanded since August.

Employment Index

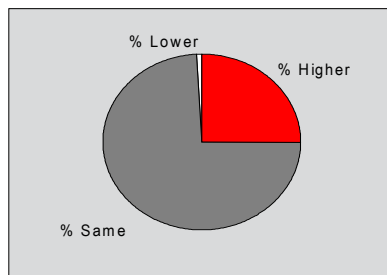
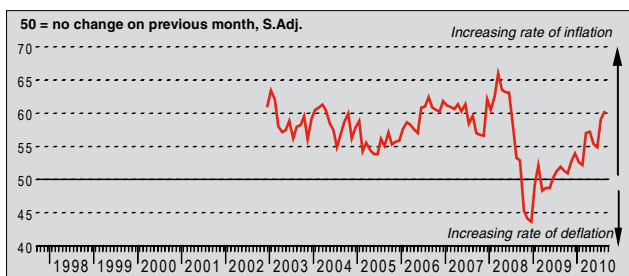
Q. Please compare the level of employment at your unit with the situation one month ago.



September data indicated a decline in Russian manufacturing employment. The seasonally adjusted Employment Index dipped below the no-change mark of 50.0, having signalled marginal growth of workforce levels in July and August. Where staffing declined on the month, this was mainly attributed to falling workloads. However, the rate of reduction in manufacturing employment was only marginal.

Output Prices Index

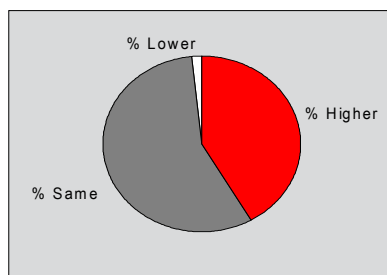
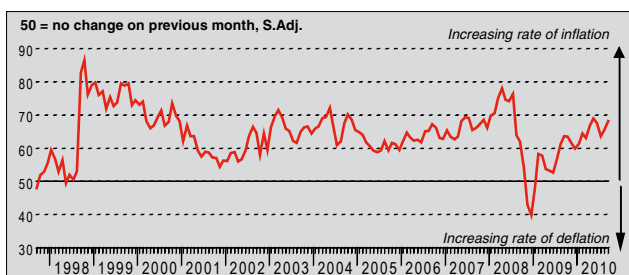
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



The rate at which Russian manufacturers raised their output charges accelerated further in September. The seasonally adjusted Output Prices Index moved up for the second month running, and signalled the fastest rate of inflation since July 2008. It was also well above its long-run trend (57.0). The current sequence of output price inflation now stretches to fifteen months. Manufacturers mainly linked higher prices for their goods to rising input costs.

Input Prices Index

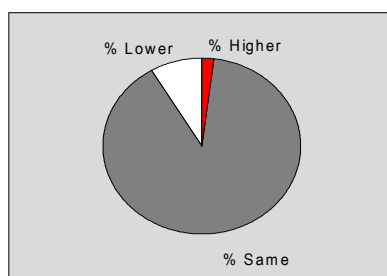
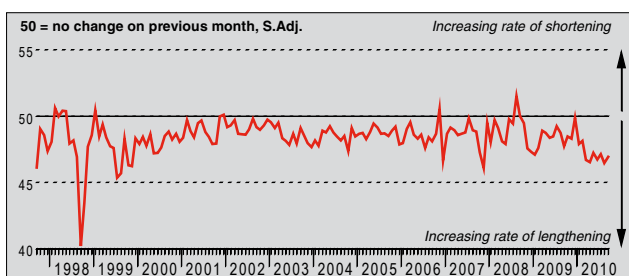
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



The seasonally adjusted Input Prices Index rose in September, signalling a faster rate of input cost inflation faced by Russian manufacturers. Average input prices have risen every month since February 2009, and the latest increase was the second-strongest in this sequence. Firms reported a range of metals as having risen in cost during the month (including copper and aluminium), while the poor harvest was reported to have driven up food prices. The rate of input price inflation remained strong in the context of historic survey data.

Suppliers' Delivery Times Index

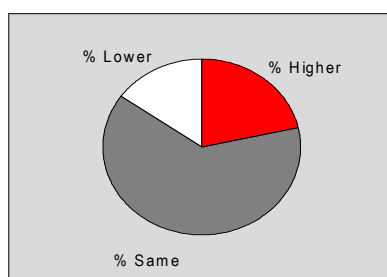
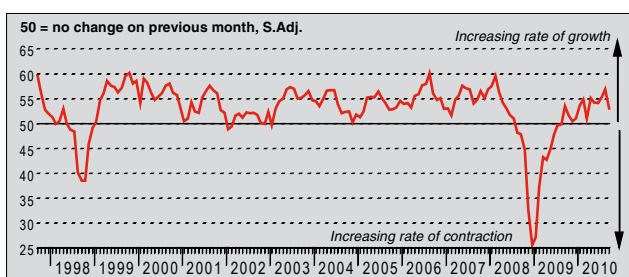
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Pressure on vendors supplying Russian manufacturers grew in September, as highlighted by a further lengthening in delivery times. Wildfires, delayed imports and shortages of raw materials were all reported as contributing to deteriorating supplier performance. The seasonally adjusted Suppliers' Delivery Times Index has remained below the no-change mark of 50.0 for the past two years, and was lower than its long-run average in the latest period.

Quantity of Purchases Index

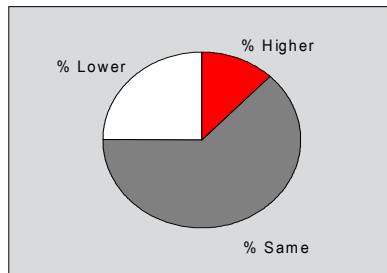
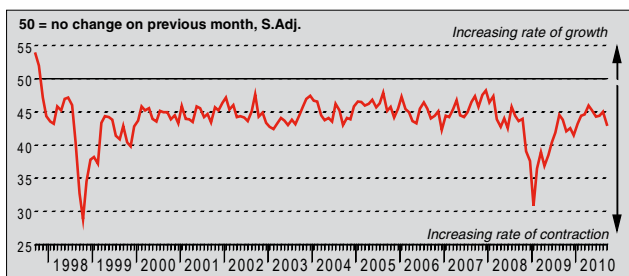
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Purchasing activity in the Russian manufacturing sector rose for the thirteenth consecutive month in September. Anecdotal evidence linked input purchases to higher output and new orders. However, the seasonally adjusted Quantity of Purchases Index dipped on the month, and indicated the weakest rate of growth since March. It was broadly in line with its long-run average during the month.

Stocks of Purchases Index

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



Russian manufacturers continued to cut their input inventories on average in September. The seasonally adjusted Stocks of Purchases Index remained below 50.0 and, falling since August, signalled the fastest rate of contraction of 2010 so far. Lower warehouse stock levels were linked to rising output that was not matched by new purchases.

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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