

Embargoed until: 08:00 (MOSCOW), 1 December 2010

## HSBC Russia Manufacturing PMI™

Russian manufacturing output growth slowed further in November.

### Key findings:

- New business expansion moderated for third month running.
- Employment levels stagnated.
- Sharpest rise in input prices for over two-and-a-half years.

HSBC survey data suggested that growth of Russian manufacturing production and new orders slowed further in November. Meanwhile, input prices rose at the fastest rate since April 2008, and employment growth all but ceased.

The headline figure from the survey is the seasonally adjusted HSBC Russia Manufacturing PMI™, a composite index designed to track overall business conditions and formed of five components – new orders, output, employment, suppliers' delivery times and stocks of purchases. Any figure greater than 50.0 signals improvement, below 50.0 contraction.

The PMI remained above the no-change mark of 50.0 in November, but resumed its descent since reaching a twenty-eight month high in August. At 51.1, the latest figure was the weakest since March, and remained below the long-run trend level of 52.1. All components of the headline index contributed to the month-on-month decline, except suppliers' delivery times.

Overall growth of Russian manufacturing new orders was maintained in November, but at a weaker rate. The pace of expansion moderated for the third month running, and was the slowest in the current eight-month sequence of growth. New export orders registered outright contraction for the fifth successive month, albeit at a weaker rate.

Slower gains in new business led to a further softening in output

growth in November. The current run of expansion now stretches to sixteen months, but the latest pace of growth was the weakest since March.

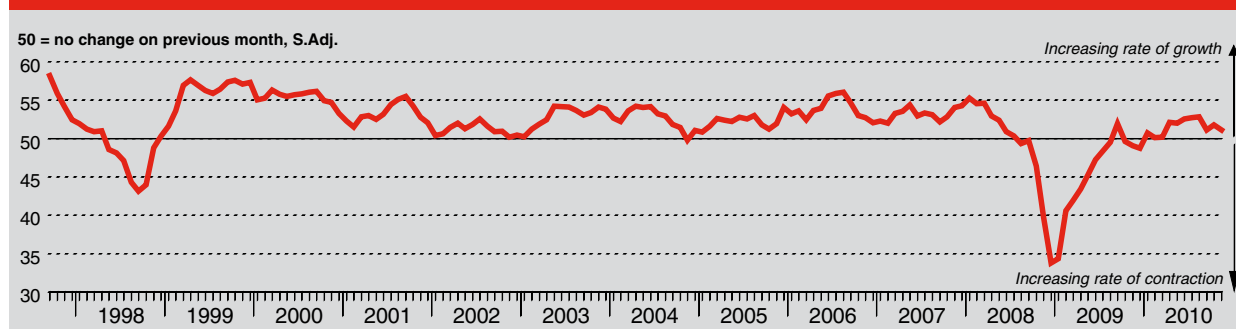
Backlogs of work declined in November at the fastest rate since those registered in the months following the financial crisis of 2008. Outstanding business at manufacturers has fallen continuously since October 2009, highlighting the relatively subdued increases in new work received compared to the rates seen prior to the downturn.

The continued loss of momentum in the manufacturing sector in November was reflected in a near-halt to employment growth. Headcounts were broadly unchanged from October, following modest growth in the previous month.

Input price inflation accelerated sharply in November, as average input costs rose at the fastest rate since April 2008. Inflationary pressure was driven by higher prices for cotton and grain – linked to the poor harvest – as well as oil-based products and metals. Meanwhile, suppliers' delivery times lengthened at the third-fastest rate in the survey history in November.

In response to rising input prices, Russian manufacturers hiked their tariffs in November. The rate of output price inflation accelerated slightly to the fastest since July 2008, and the current sequence of rising charges now stretches to seventeen months.

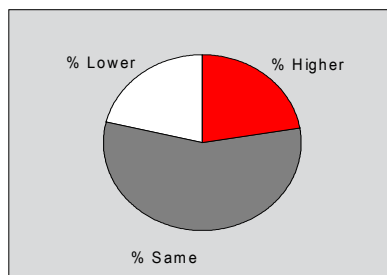
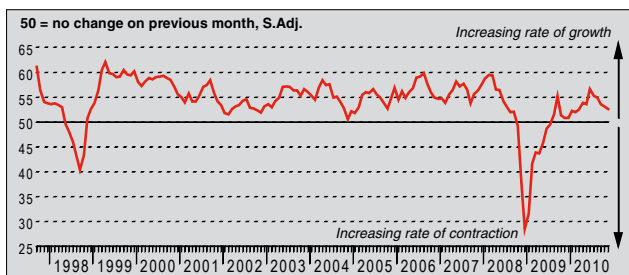
HSBC Russia Purchasing Managers' Index (PMI™)



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

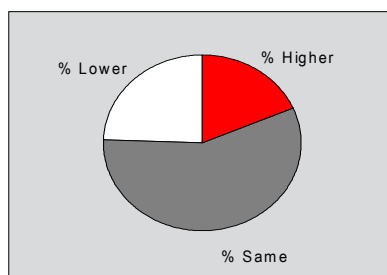
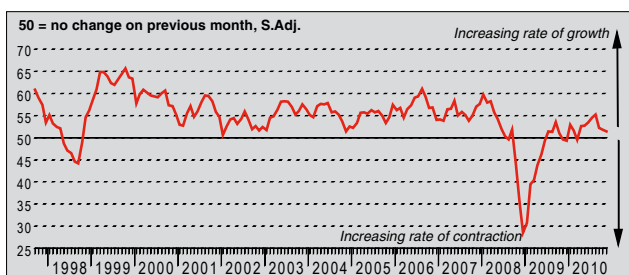
Q. Please compare your production/output this month with the situation one month ago.



Output growth in Russia's manufacturing sector continued to lose momentum in November. The seasonally adjusted Output Index eased further from June's twenty-six month high, and signalled the slowest rate of expansion since March. Nevertheless, the current sequence of overall growth now stretches to sixteen months. Where production rose, this was mainly linked to higher intakes of new work.

### New Orders Index

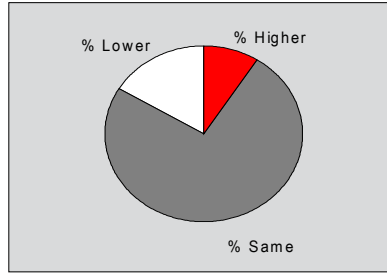
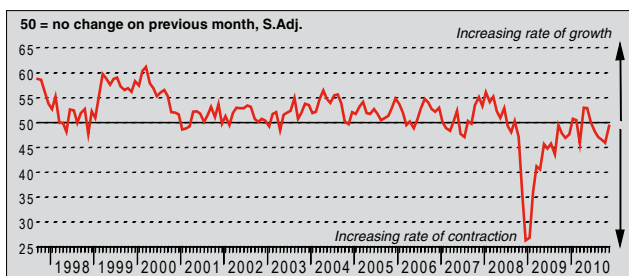
Q. Please compare the level of new orders received this month with the situation one month ago.



New order growth at Russian manufacturers was maintained for the eighth month running in November. Some firms commented that they had won large contracts, reflecting a greater willingness to spend among clients. However, the rate of growth was the weakest in the current sequence, and remained well below pre-crisis levels.

### New Export Orders Index

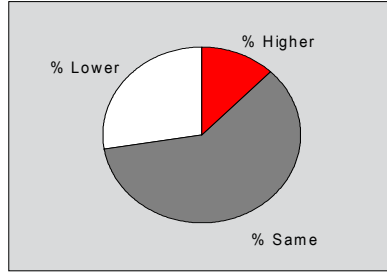
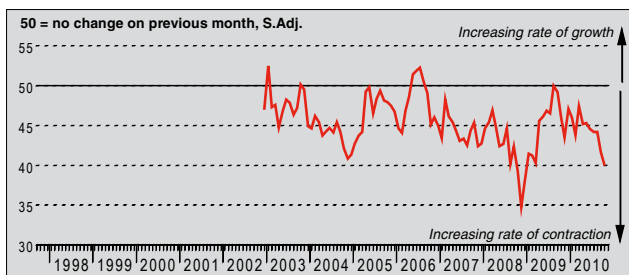
Q. Please compare the level of new export orders received this month with the situation of one month ago.



November marked another decline in new export business received by Russian manufacturers. The seasonally adjusted New Export Orders Index remained below the no-change mark of 50.0 for the fifth successive month. That said, the Index rose on the month, and signalled the slowest rate of contraction in the current sequence.

### Backlogs of Work Index

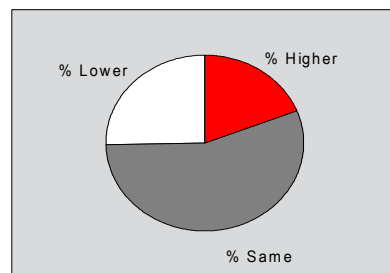
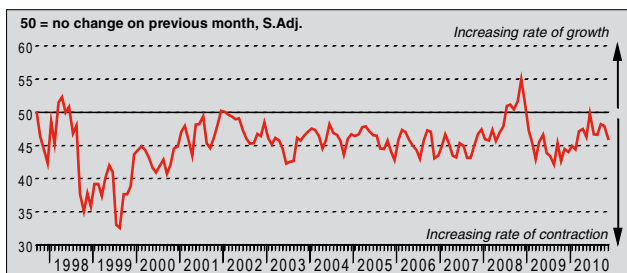
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



The volume of outstanding business in the Russian manufacturing sector continued to decline sharply in November. Moreover, the rate of depletion approached the record levels seen in late-2008 and early-2009, as the seasonally adjusted Backlogs of Work Index fell to a twenty-two month low. Firms linked lower backlogs to better production management, and a lack of incoming new work to replace completed contracts.

### Stocks of Finished Goods Index

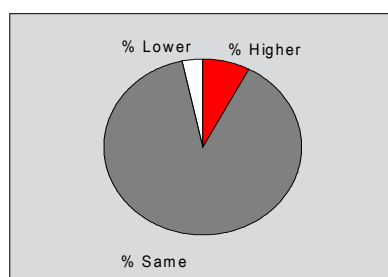
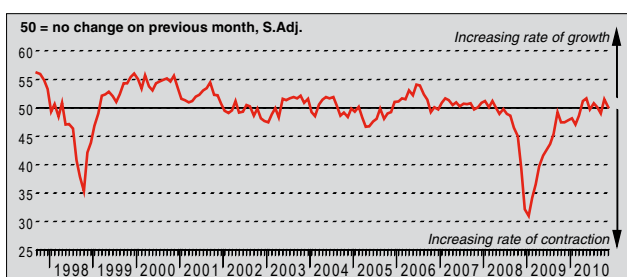
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Stocks of finished goods held in stock at Russian manufacturers declined further in November. The current sequence of inventory streamlining in the sector now stretches to almost two years. Some firms reported that lower stocks reflected increased shipments to clients. Moreover, the rate of depletion sharpened during the month, as the seasonally adjusted Stocks of Finished Goods Index fell to a nine-month low.

### Employment Index

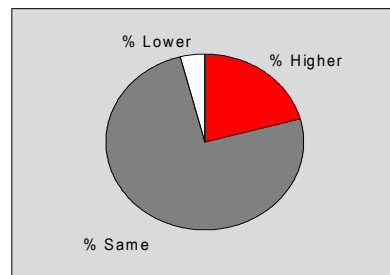
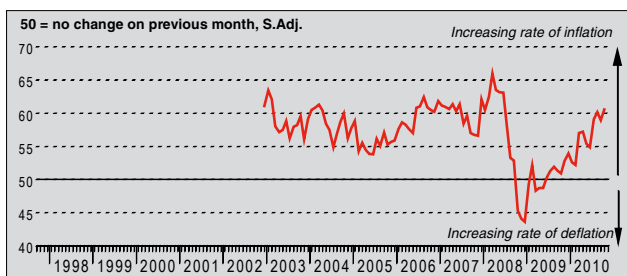
Q. Please compare the level of employment at your unit with the situation one month ago.



Employment growth in Russia's manufacturing sector slowed in November. The seasonally adjusted Employment Index was above neutrality for the sixth time in the past eight months, but the latest figure was indicative of a general stagnation in recruitment. Though some firms reported expanding capacity during the month, the overall malaise in jobs growth reflected subdued gains of new work across the sector.

### Output Prices Index

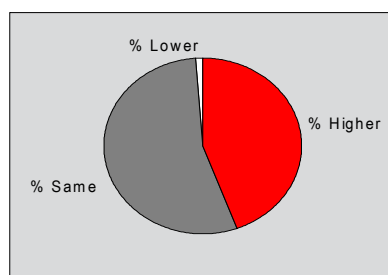
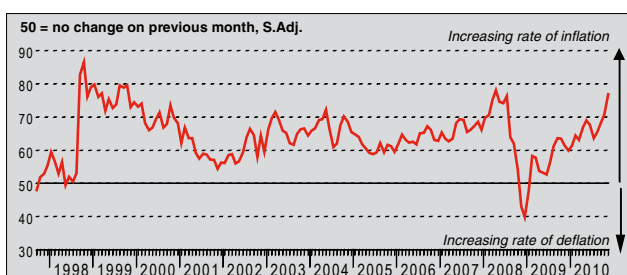
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Russian manufacturers raised their output prices at a marked rate in November. The current sequence of inflation now extends to seventeen months. Moreover, the seasonally adjusted Output Prices Index moved higher on the month, and signalled the fastest rate of inflation since July 2008. Higher input costs were the primary source of inflationary pressure in the latest period.

### Input Prices Index

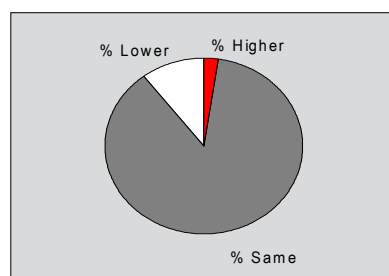
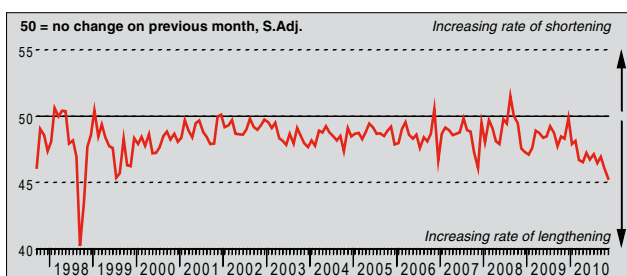
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Input price inflation in the Russian manufacturing sector accelerated sharply in November. The seasonally adjusted Input Prices Index signalled the fastest rate of increase in average input costs since April 2008. The poor harvest was highlighted as a key source of inflationary pressure, leading to rising grain and cotton prices. Copper, aluminium, oil-based products (such as fuel and lubricants) and cardboard were also reported as having increased in price.

## Suppliers' Delivery Times Index

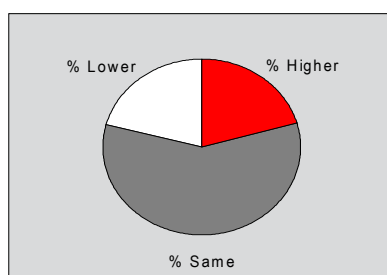
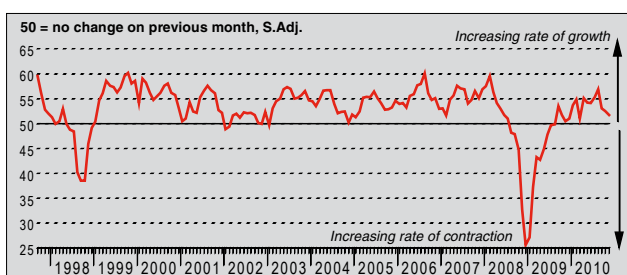
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



The performance of suppliers to Russian manufacturers deteriorated sharply in November. The seasonally adjusted Suppliers' Delivery Times Index sank to its lowest level since October 1998, signalling a marked lengthening of the average time taken to deliver purchases to manufacturers. Firms linked delays to insufficient rail freight capacity and shortages of raw materials including metals and packaging.

## Quantity of Purchases Index

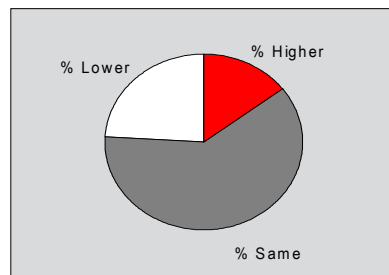
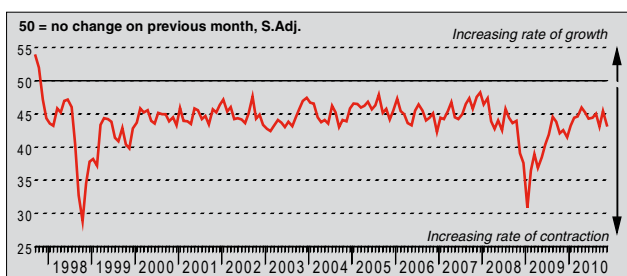
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



The current period of rising purchasing activity in the Russian manufacturing sector was extended to fifteen months in November. In line with the trends for new orders and output, the rate of expansion weakened. The seasonally adjusted Quantity of Purchases Index fell for the third month running, and pointed to the slowest growth since March.

## Stocks of Purchases Index

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



Pre-production inventories in the Russian manufacturing sector continued to decline, on average, in November. The seasonally adjusted Stocks of Purchases Index remained below the no-change mark of 50.0 during the month, and signalled the second-fastest rate of contraction since January. Some firms linked lower stocks to shortages of raw materials.

## 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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