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## HSBC Russia Manufacturing PMI™

Russian manufacturing output and new orders both rose at faster rates in December.

### Key findings:

- Manufacturing PMI improved to thirty-three month high of 53.5.
- New export orders rose for first time in six months.
- Sharpest rise in employment since July 2006.

HSBC survey data signalled that Russian manufacturers ended 2010 on a positive note, as output and new business both increased at their strongest rates since August. Adding to the encouraging picture, employment in the sector increased at the fastest pace for almost four-and-a-half years, while new export orders rose for the first time since June. Meanwhile, inflation of both input and output prices remained elevated.

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 posted its largest one-month gain since September 2009 in the final month of 2010, rising from 51.1 to 53.5 in December. The latest figure signalled the strongest overall improvement in operating conditions since March 2008, and was greater than the PMI's long-run average of 52.1. The boost to the headline index reflected positive movements in four of its five components, led by new orders.

New orders received by Russian manufacturers increased at the strongest rate since August. A number of firms reported successful marketing policies during the month, and new product development. The volume of new work received from

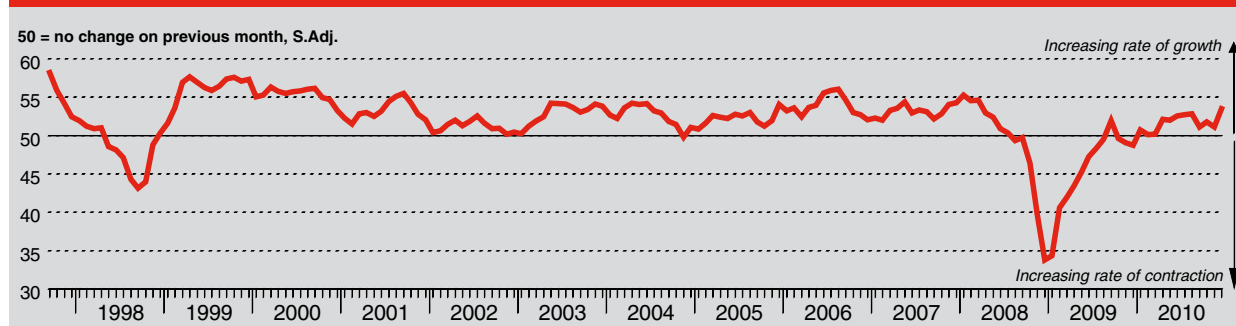
export markets increased for the first time in six months, and at the fastest rate since March 2008.

Manufacturing output in Russia increased for the seventeenth successive month in December. Moreover, the rate of expansion picked up to its highest since August, reflecting stronger gains in new orders. The volume of outstanding business continued to decline, but at the weakest rate in eight months.

December data revealed signs of capacity investment by Russian manufacturers, as stronger new order growth improved the short-term outlook for workloads. Employment in the sector rose for the seventh time in nine months, and at the fastest rate since July 2006. Meanwhile, purchasing activity by manufacturers rose at the strongest pace in four months. This contributed to pressure on suppliers and, as a result, the average time taken to deliver inputs to manufacturers in December remained among the longest indicated by the survey to date.

Average input prices increased at the fastest rate since April 2008 in December, reflecting higher demand and supply constraints. Raw materials, particularly metals and oil-based products, were highlighted as having contributed to inflationary pressure during the month. Further sharp increases in input prices led firms to hike their prices for final goods, and the rate of output price inflation was broadly similar to November's twenty-eight month high.

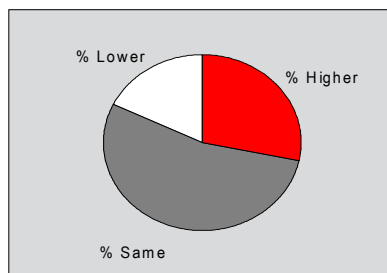
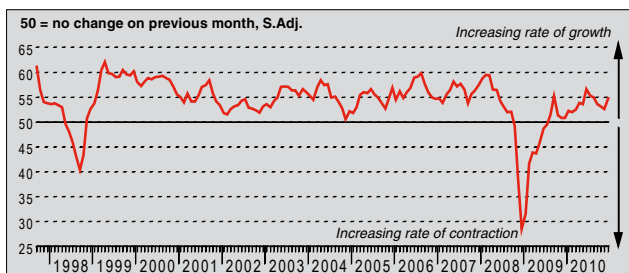
HSBC Russia Purchasing Managers' Index (PMI™)



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

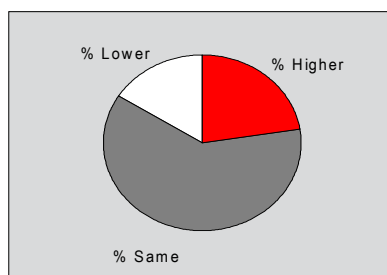
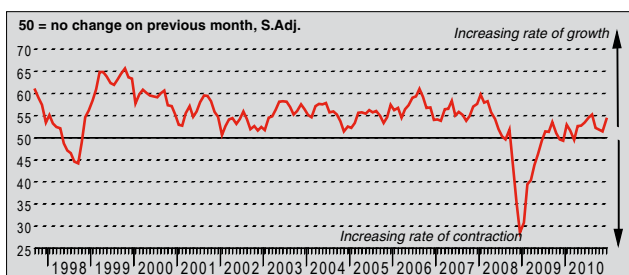
Q. Please compare your production/output this month with the situation one month ago.



Russian manufacturing production increased for the seventeenth successive month in December. Moreover, the rate of expansion accelerated to a four-month high, as the seasonally adjusted Output Index recovered from November's eight-month low. Firms linked higher output to rising volumes of new orders. That said, the rate of expansion remained weaker than the pre-crisis trend.

### New Orders Index

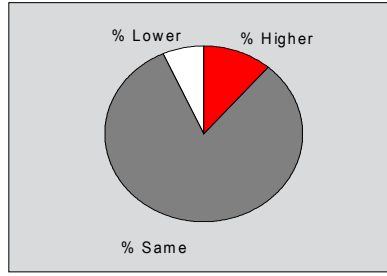
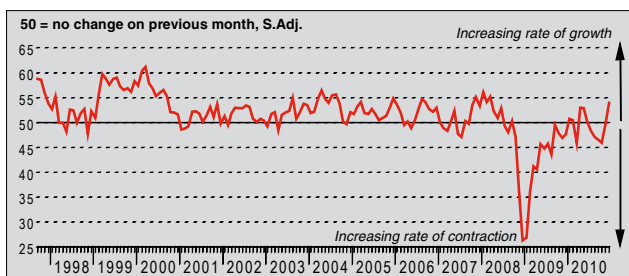
Q. Please compare the level of new orders received this month with the situation one month ago.



The volume of new work received by Russian manufacturers increased further in December. Moreover, the seasonally adjusted New Orders Index improved from November's eight-month low, and signalled a solid rate of expansion. A number of firms reported that marketing activity had brought in new customers during the month. However, the rate of new order growth still failed to match the pre-crisis average.

### New Export Orders Index

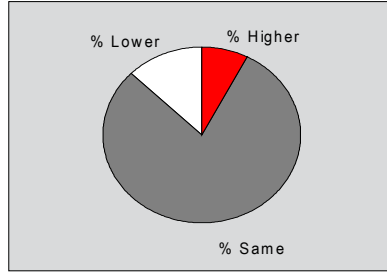
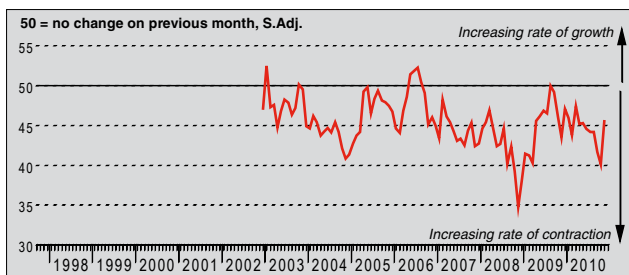
Q. Please compare the level of new export orders received this month with the situation of one month ago.



December data signalled the first month-on-month increase in new export contracts in Russia's manufacturing sector since June. Moreover, the seasonally adjusted New Export Orders Index signalled the fastest rate of expansion since March 2008. It was also higher than its long-run average of 51.6. Around 11% of survey respondents reported higher intakes of export orders during the month.

### Backlogs of Work Index

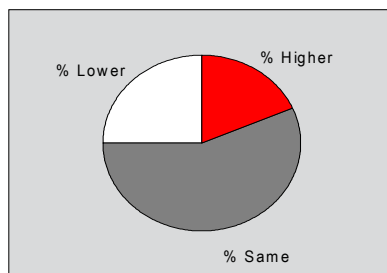
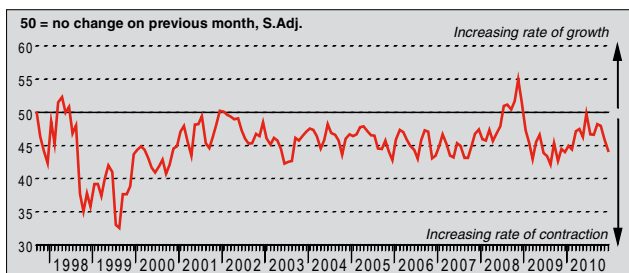
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



The seasonally adjusted Backlogs of Work Index remained below the no-change mark of 50.0 in December, indicating a further contraction in outstanding business received by Russian manufacturers. Backlogs have declined every month since October 2009. Falling outstanding business continued to reflect spare capacity in the sector. However, the rate of contraction was the slowest since April.

### Stocks of Finished Goods Index

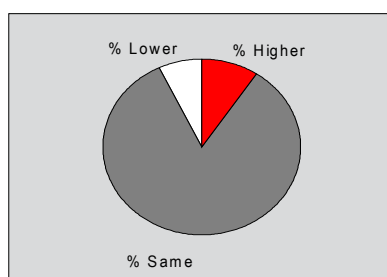
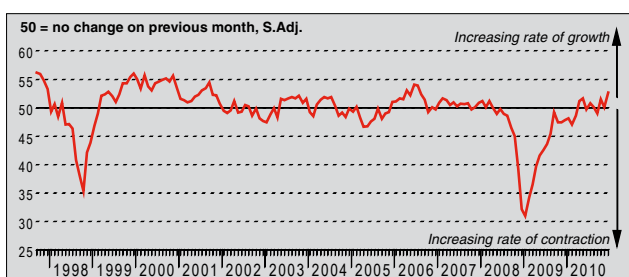
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Russian manufacturers continued to record an overall fall in their inventories of final products in December. The seasonally adjusted Stocks of Finished Goods Index fell for the third month running and remained below the no-change mark of 50.0 for the twenty-fourth successive month. Moreover, the latest figure signalled the fastest rate of contraction since December 2009. Firms mainly linked lower warehouse levels to improving sales demand.

### Employment Index

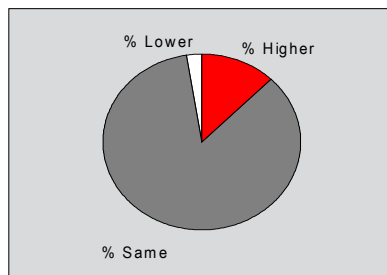
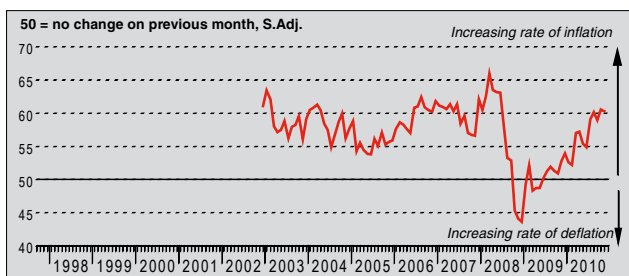
Q. Please compare the level of employment at your unit with the situation one month ago.



Manufacturing employment in Russia rose for the third month running in December. Nearly one-in-ten survey respondents reported higher intakes of staff during the month, and the overall rate of job creation in the sector was the strongest since July 2006. The manufacturing workforce has expanded seven times in the past nine months, following a period of decline which lasted almost two years. Recruitment was attributed by firms to rising levels of new orders and higher output.

### Output Prices Index

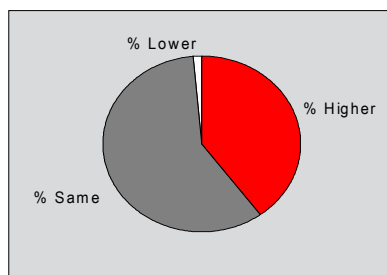
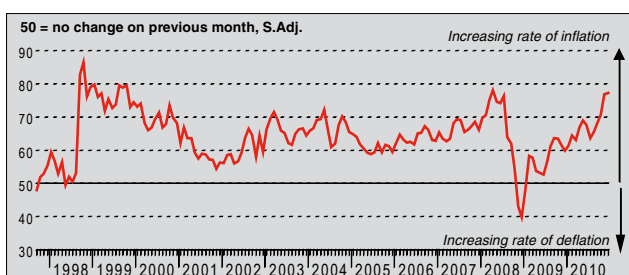
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



The seasonally adjusted Output Prices Index remained well above the no-change mark of 50.0 in December, indicating a sharp rate of charge inflation at Russian manufacturers. The Index was little-changed from November's twenty-eight month high, and greater than its long-run average of 57.1. The latest anecdotal evidence directly linked output price inflation to rising input costs during the month.

### Input Prices Index

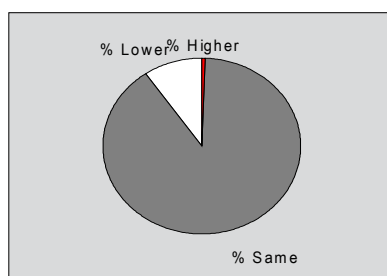
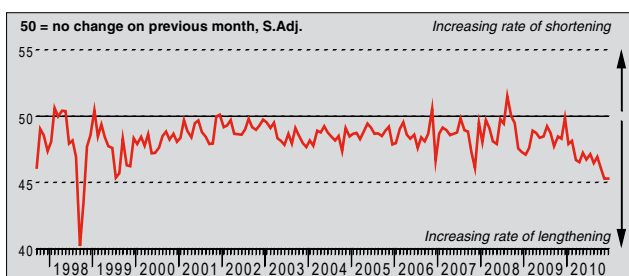
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



The rate at which average prices paid by Russian manufacturers for their inputs increased accelerated for the fifth successive month in December. The seasonally adjusted Input Prices Index rose to its highest since April 2008, and the latest figure was well above the long-run series average of 64.6. Sources of upward pressure on manufacturers' purchasing costs included oil-related products, metals and other raw materials.

### Suppliers' Delivery Times Index

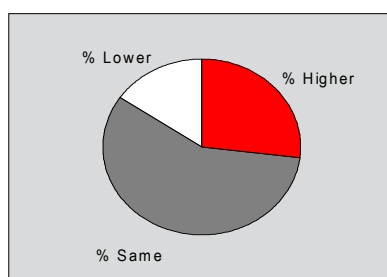
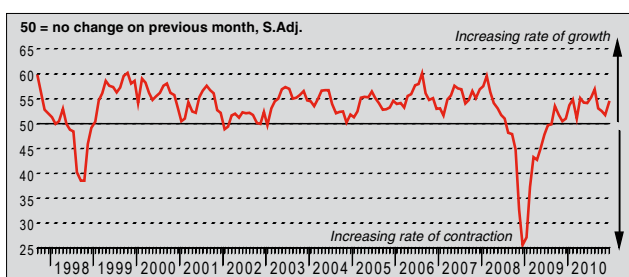
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



The seasonally adjusted Suppliers' Delivery Times Index was unchanged from November's twelve-year low in the latest survey period, signalling a further marked lengthening in the average time taken for suppliers to deliver inputs to Russian manufacturers. Survey respondents continued to report that a shortage of rail freight capacity had led to delays. The latest Index reading was the joint-third lowest in the survey history.

### Quantity of Purchases Index

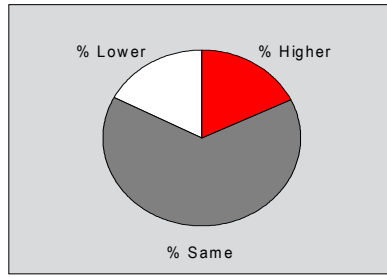
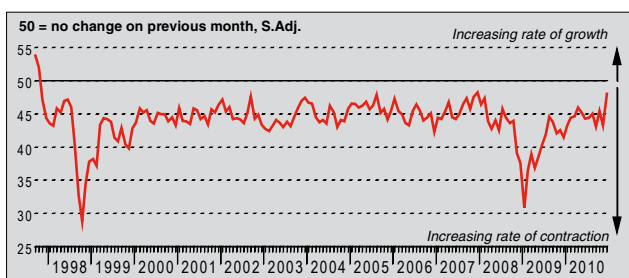
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



In line with the trends seen for output and new orders, the rate of growth of purchases made by Russian manufacturers accelerated to a four-month high in December. The current sequence of expansion now extends to sixteen months. Around 27% of firms reported higher input purchases during the final month of 2010, but the rate of expansion on average over Q4 was the slowest of any quarter this year.

### Stocks of Purchases Index

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



Pre-production warehouses in the Russian manufacturing sector continued to decline on average in December. That said, the rate of contraction eased sharply since November, and was the slowest since December 2007. Where stocks of purchases declined, this was mainly attributed by survey respondents to increased production or 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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