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## HSBC Russia Manufacturing PMI™

Russian manufacturing sector started 2011 with fastest rise in output for seven months.

### Key findings:

- Manufacturing PMI unchanged at 53.5.
- Faster gains in both output and new orders.
- Input price inflation accelerated for sixth successive month.

HSBC survey data signalled that the overall business climate in Russia's manufacturing sector improved at a robust pace in January. The rates of expansion for output and new orders both accelerated in the first month of the year, generating further gains in purchasing and employment. However, the latest data also signalled growing inflationary pressures, as input price inflation accelerated for the sixth successive month and manufacturers hiked their output charges at the fastest rate since July 2008.

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 was unchanged from December's thirty-three month high of 53.5 in January. This figure was slightly above the long-run average for the series (52.1). The stable headline figure was reflective of faster growth of both output and new orders, offset by weaker contributions from employment and suppliers' delivery times and a faster decline in stocks of purchases. The PMI has registered above the neutral 50.0 mark since January 2010.

New order growth in the Russian manufacturing sector gained

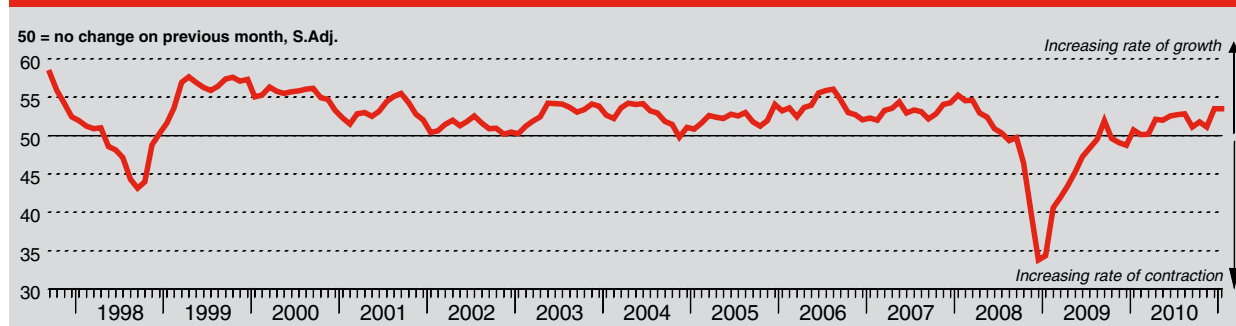
momentum in January. The rate of expansion was the fastest since March 2008, and extended the current growth sequence to ten months. New export business supported the overall gain in new orders, registering the second-strongest increase since March 2008.

Production rose for the eighteenth month running in January, and at the strongest pace since last June. The rate of expansion was also stronger than the long-run survey average, and contributed to a sharp fall in backlogs of work. The volume of incomplete work in the sector has declined for the past sixteen months, indicating the prevalence of spare capacity.

Russian manufacturers boosted their input purchases and workforce numbers in January as production requirements increased. The rates of expansion eased from December in both cases, but were nevertheless robust in the context of historic survey data. Pressure on suppliers remained, as average input delivery times continued to lengthen in January – albeit to a lesser extent than in December.

Inflationary pressures continued to build in January. Input price inflation has strengthened every month since last August, posting a thirty-three month high in the latest period. Meanwhile, output charges rose at the fastest rate since July 2008. Manufacturers reported a wide range of sources of upward pressure on costs, including metals, textiles, foodstuffs, oil-based products, energy, transport and taxes.

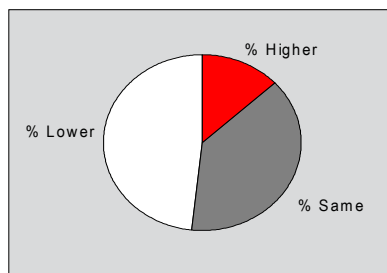
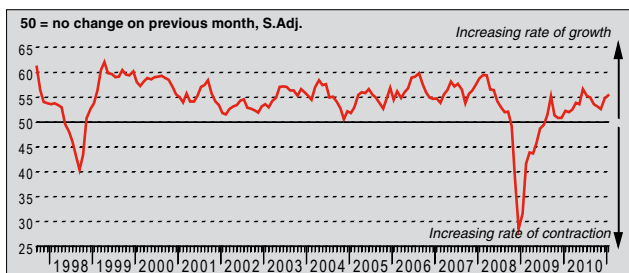
### HSBC Russia Purchasing Managers' Index (PMI™)



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

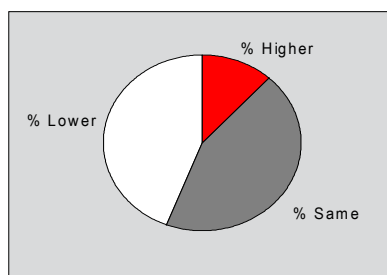
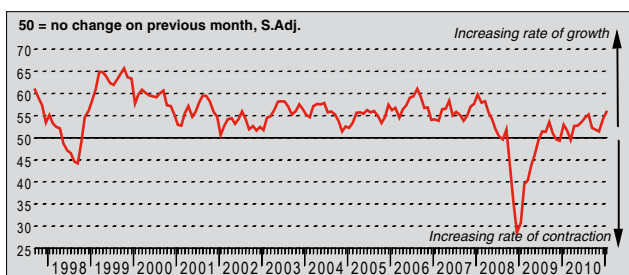
Q. Please compare your production/output this month with the situation one month ago.



The rate of growth of Russian manufacturing production accelerated for the second month running in January. The seasonally adjusted Output Index improved to its highest since last June. Moreover, it was greater than its long-run trend level of 54.3 for the second straight month. Anecdotal evidence linked gains in output to higher intakes of new work. The current sequence of production growth now stretches to a year-and-a-half.

## New Orders Index

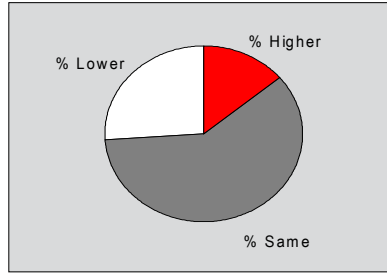
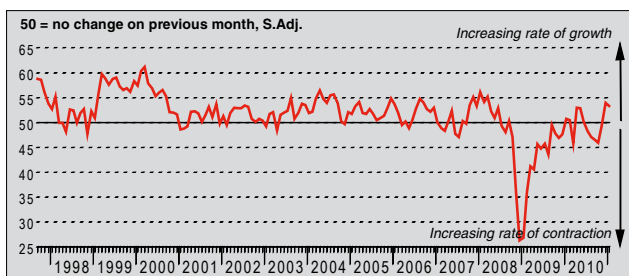
Q. Please compare the level of new orders received this month with the situation one month ago.



The volume of new business received by Russian manufacturers rose for the tenth month running in January, reflecting improving demand. Moreover, the rate of expansion accelerated for the second month running to the fastest since March 2008. The seasonally adjusted New Orders Index was greater than its long-run trend of 54.8 during the month (but just short of its average pre-October 2008 of 56.1).

## New Export Orders Index

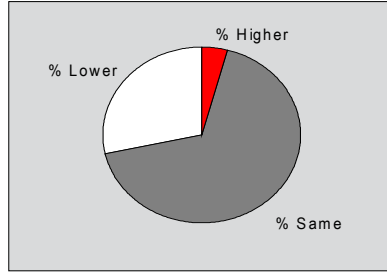
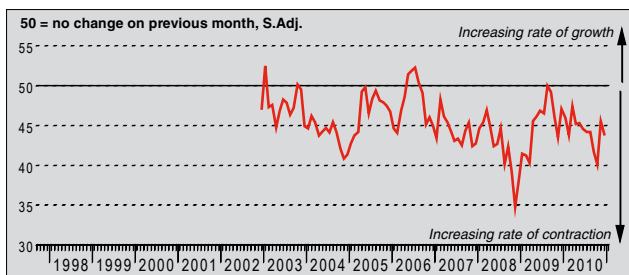
Q. Please compare the level of new export orders received this month with the situation of one month ago.



The seasonally adjusted New Export Orders Index remained above the no-change mark of 50.0 for the second month running in January, signalling a sustained increase in work received from international markets by Russian manufacturers. Moreover, the rates of expansion over the current sequence have been the sharpest since March 2008.

## Backlogs of Work Index

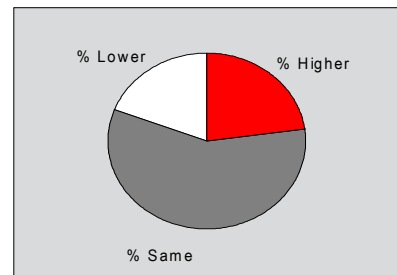
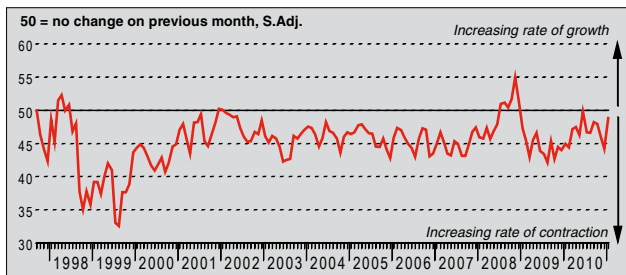
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Although new orders rose at a faster pace in January, the volume of incomplete business in the Russian manufacturing sector continued to decline. The current sequence of contraction now stretches to sixteen months. The rate of reduction in backlogs accelerated slightly since December, and was slightly sharper than the long-run trend for the series.

## Stocks of Finished Goods Index

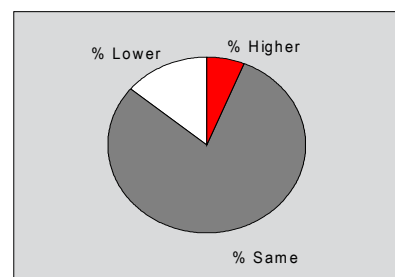
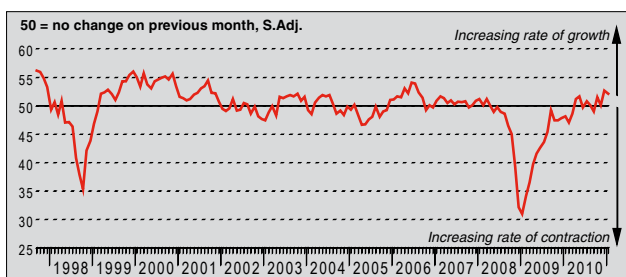
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



The volume of final products held in stock at Russian manufacturers continued to fall in January. The seasonally adjusted Stocks of Finished Goods Index has remained below the no-change mark of 50.0 since January 2009. Lower warehouse stocks were often linked to large shipments of goods or improving demand generally. That said, the overall rate of inventory depletion was much slower than in December, and the weakest since last June.

## Employment Index

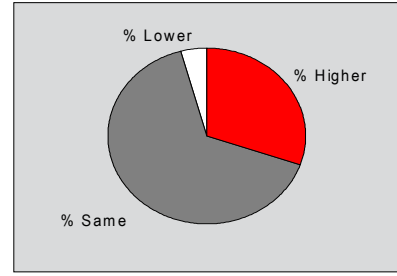
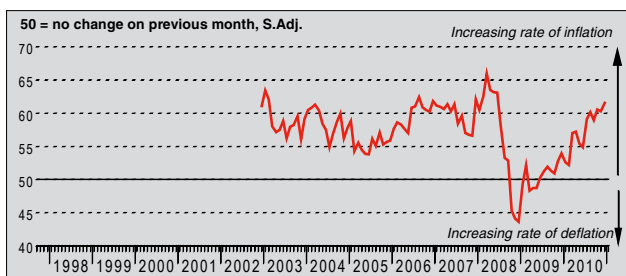
Q. Please compare the level of employment at your unit with the situation one month ago.



Russian manufacturers expanded their workforces on average for the fourth successive month in January. The seasonally adjusted Employment Index eased slightly from December, but still signalled the second-fastest rate of job creation since August 2006. Survey respondents attributed recruitment to rising production requirements.

## Output Prices Index

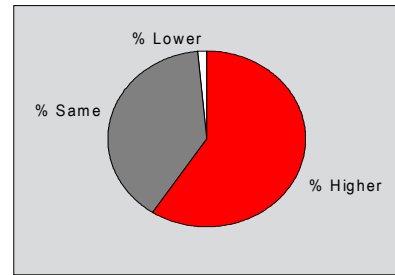
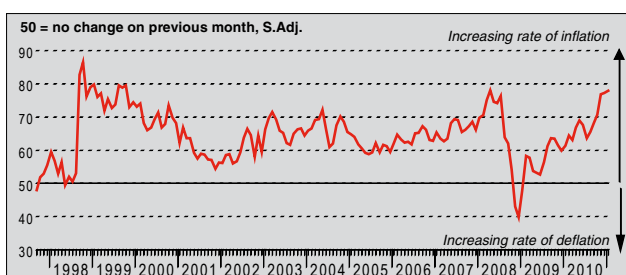
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



The rate at which Russian manufacturers increased their output charges accelerated in January. The seasonally adjusted Output Prices Index moved up to a two-and-a-half year high, and was well above its long-run average of 57.2. Average prices charged for manufactured goods have risen every month since July 2009. Firms linked higher charges during the month to a combination of rising costs from utilities, raw materials, transport and taxes.

## Input Prices Index

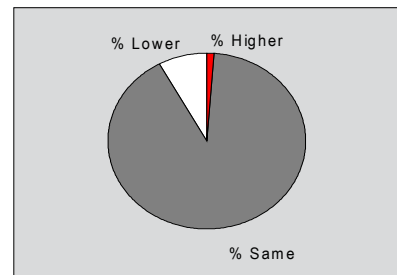
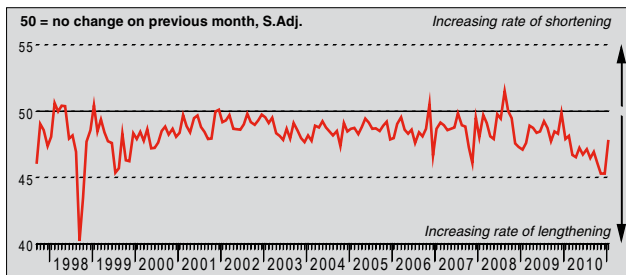
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Russian manufacturers continued to face rising average input prices in January. Moreover, the rate of inflation accelerated for the sixth consecutive survey period. The seasonally adjusted Input Prices Index indicated the fastest rate of increase since April 2008, with firms highlighting metals, textiles, energy, foodstuffs and the impact of taxes in particular. Average input prices have risen continuously for two years.

## Suppliers' Delivery Times Index

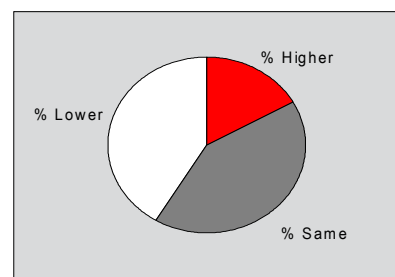
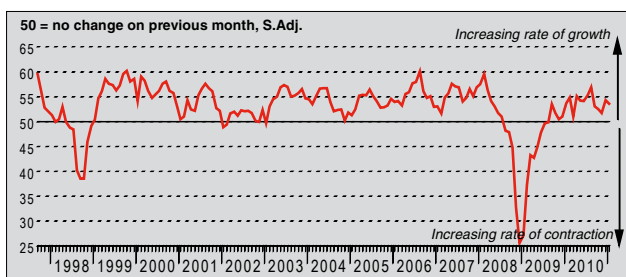
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



The performance of suppliers to Russian manufacturers continued to worsen on average in January. A number of firms linked delays to a lack of rail freight capacity. However, the great majority of companies (91%) reported no change in supplier performance during the month, and the overall degree of lengthening was the weakest since February 2010.

## Quantity of Purchases Index

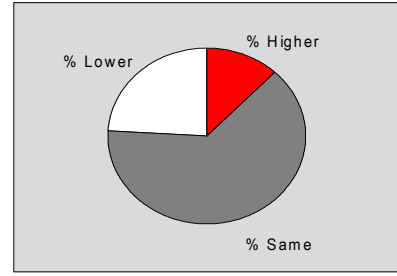
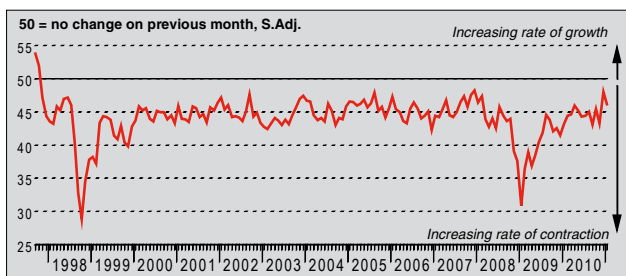
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



January data marked a seventeenth successive monthly rise in purchasing activity by Russian manufacturers. The seasonally adjusted Quantity of Purchases Index dipped slightly from December, signalling a slower rate of expansion, but one that remained robust in the context of historic survey data. Input purchases were mainly linked to receipts of new orders.

## Stocks of Purchases Index

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



The seasonally adjusted Stocks of Purchases Index remained below the no-change mark of 50.0 in January, signalling that Russian manufacturers continued to streamline their inventories of inputs. The rate of depletion accelerated since December, but was nevertheless moderate when viewed in comparison with historic survey data.

## 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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