

Embargoed until: 08:00 (MOSCOW), 1 March 2011

HSBC Russia Manufacturing PMI™

Growth of Russian manufacturing output accelerated to highest since March 2008.

Key findings:

- Manufacturing PMI rose to highest in over three years, at 55.2.
- Output and new orders both grew at fastest rates since March 2008.
- Input price inflation eased for first time in seven months, but remained substantial.

Survey data compiled by Markit for HSBC revealed positive momentum in the Russian manufacturing sector in February. Growth rates for output, new orders and purchasing activity were all at their fastest in around three years, while jobs in the sector were created at the strongest pace since mid-2006. Meanwhile, inflation of both input and output prices remained intense, despite weakening slightly compared to January.

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.

Having been unchanged in January, the PMI resumed its upward trajectory in the latest survey period. Moreover, at 55.2, the indicator reached its highest level since January 2008. It was also comfortably above the trend level achieved between the two major downturns to hit the sector during the survey history (The PMI averaged 53.4 between December 1998 and July 2008).

New business growth underpinned the resurgence in manufacturing business conditions in February. The volume of new work taken by Russian manufacturers rose at the sharpest rate since March 2008, extending the current sequence of continuous expansion to eleven months. Latest data signalled

that domestic demand remained stronger than that from export markets, as new order growth from abroad eased slightly since January.

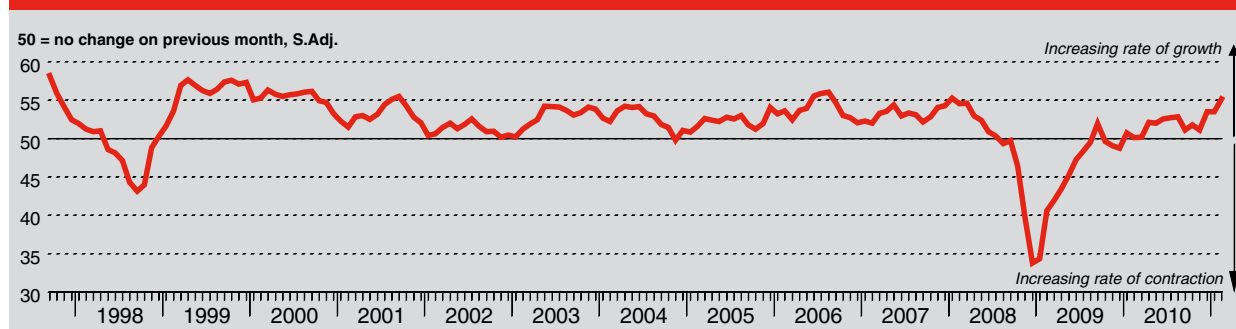
The boost to new orders drove an acceleration in output growth in February. Production at Russian manufacturers has risen in every month since August 2009 and, in line with new orders, the latest rate of expansion was the fastest since March 2008.

Manufacturers also stepped up their purchasing operations in February, as the volume of inputs ordered during the month rose at the strongest pace in three years. Stocks of purchases continued to fall overall, but at a weaker rate.

Backlogs of work declined again in the latest period, but at a weaker rate. This partly reflected the steepest rate of employment growth in manufacturing since July 2006, as firms attempted to raise capacity to deal with incoming new business.

February data signalled a slight easing of inflationary pressure in the Russian manufacturing sector. Both input and output price inflation remained substantial nonetheless, despite easing to four-month lows. Russian manufacturers reported that higher prices for metals and refined oil products in particular had been major contributing factors. Energy costs in general were also cited. Prior to February, input price inflation had accelerated for six consecutive months.

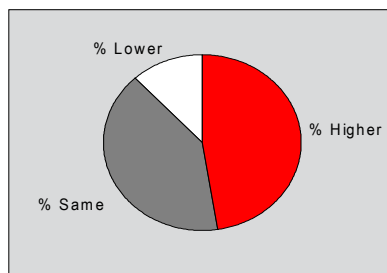
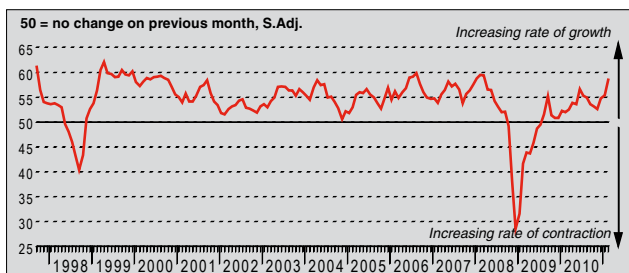
HSBC Russia Purchasing Managers' Index (PMI™)



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

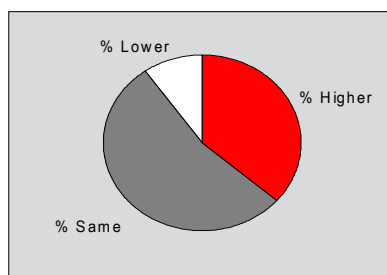
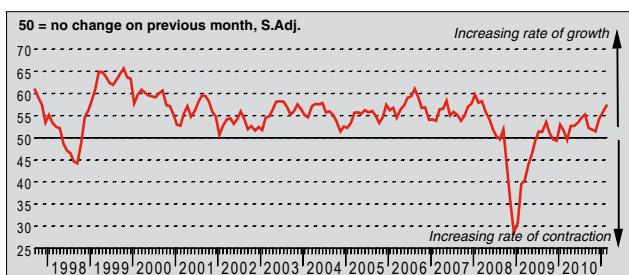
Q. Please compare your production/output this month with the situation one month ago.



Production growth at Russian manufacturers was maintained for the nineteenth successive month in February. Moreover, the rate of expansion accelerated to its fastest since March 2008. The seasonally adjusted Output Index was also well above its long-run trend level in the latest period (54.3). The Index has signalled accelerating growth for three consecutive months, a pattern not recorded for three years. Firms mainly linked rising output volumes to intakes of new work, as underlying demand improved.

New Orders Index

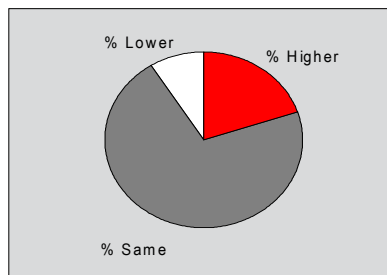
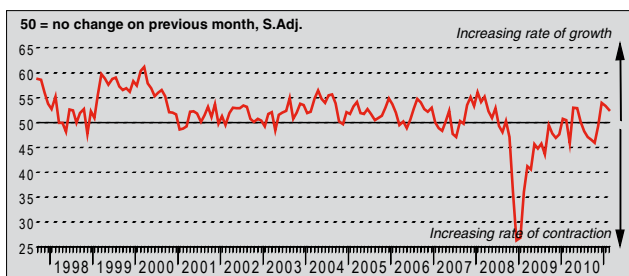
Q. Please compare the level of new orders received this month with the situation one month ago.



The volume of new orders placed with Russian manufacturers rose for the eleventh month running in February. Moreover, the pace of expansion accelerated for the third successive month, as signalled by a further rise in the seasonally adjusted New Orders Index. The latest figure indicated the strongest overall increase in new contracts since March 2008. Anecdotal evidence suggested a firm improvement in underlying market demand during the month.

New Export Orders Index

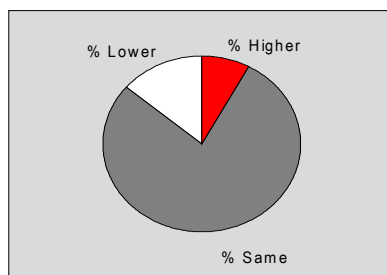
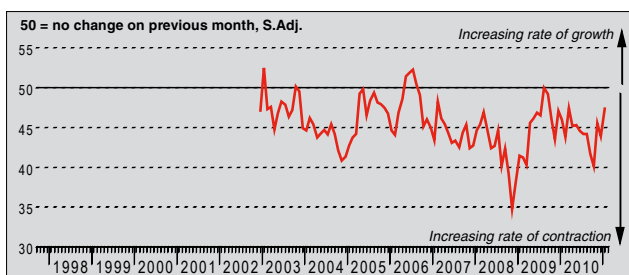
Q. Please compare the level of new export orders received this month with the situation of one month ago.



New order growth in export markets was maintained in February, albeit at a weaker pace. The seasonally adjusted New Export Orders Index remained above the no-change mark of 50.0 for the third month running, but signalled the slowest rise in this sequence. That said, the pace of expansion was still greater than the long-run trend for the survey.

Backlogs of Work Index

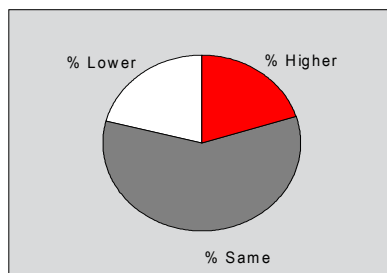
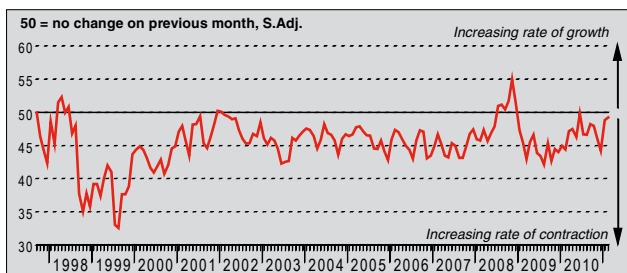
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Outstanding business in the Russian manufacturing sector continued to contract in February, indicating that spare capacity persisted. The current period of continuous reduction now stretches to seventeen months. The seasonally adjusted Backlogs of Work Index rose sharply since January, however, to signal the slowest decline since April 2010. This reflected the recent strengthening of new order growth in the sector.

Stocks of Finished Goods Index

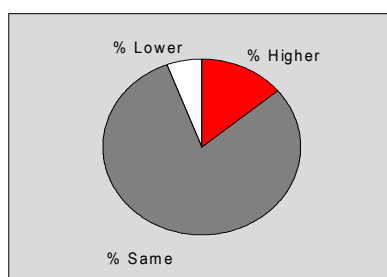
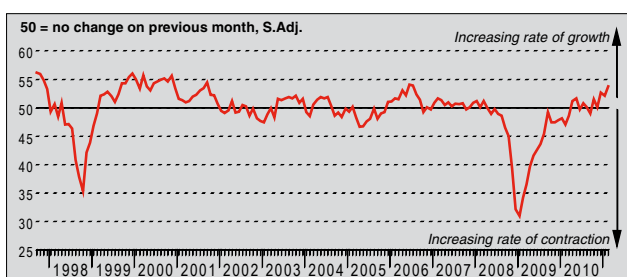
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Russian manufacturers continued to record lower inventories of final goods, on average, in February. The overall rate of contraction was only marginal, however, as an increasing frequency of shipments to clients was broadly matched by rising output. Almost as many firms reported increasing inventories as those that stated reductions. The seasonally adjusted Stocks of Finished Goods Index improved to an eight-month high in the latest period, and was well above its long-run average (45.4).

Employment Index

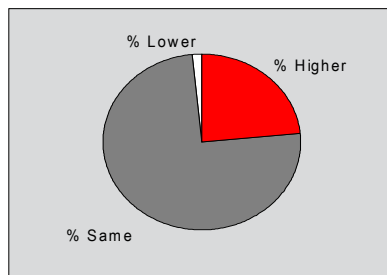
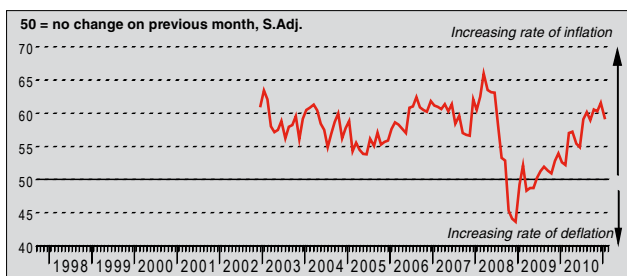
Q. Please compare the level of employment at your unit with the situation one month ago.



The current sequence of rising employment in Russia's manufacturing sector was extended to five months in February. Moreover, the rate of job creation accelerated to its fastest since July 2006. Firms linked recruitment to rising production requirements following intakes of new work. The seasonally adjusted Employment Index was well above its long-run average during the latest period (49.8, signalling a broadly flat trend in staffing over the survey history).

Output Prices Index

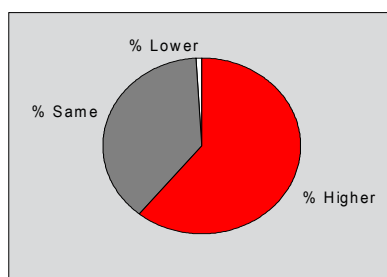
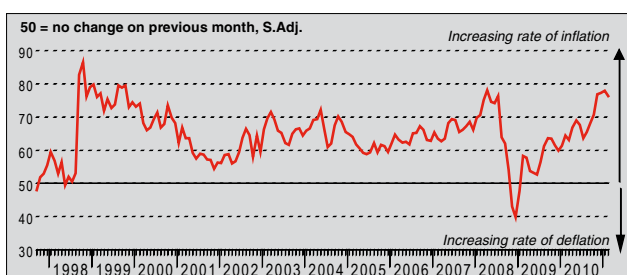
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Russian manufacturers continued to raise their output prices at a marked rate in February. The seasonally adjusted Output Prices Index was above the no-change mark of 50.0 for the twentieth month in succession, and remained indicative of a sharp increase despite easing to a four-month low. Survey respondents reported passing on higher raw material and energy prices to customers.

Input Prices Index

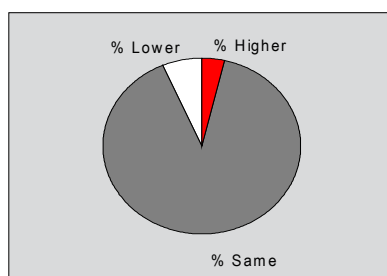
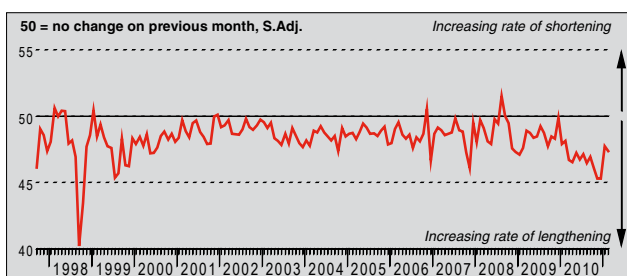
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Cost pressures in the Russian manufacturing sector remained close to record levels in February. The seasonally adjusted Input Prices Index fell for the first time since last July, to a four-month low, but still signalled a rapid increase in average input costs. Around 61% of panellists reported higher input prices than one month earlier. Metals and refined oil products were highlighted as having become more expensive.

Suppliers' Delivery Times Index

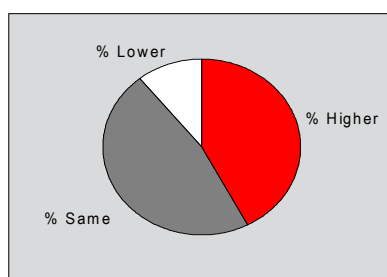
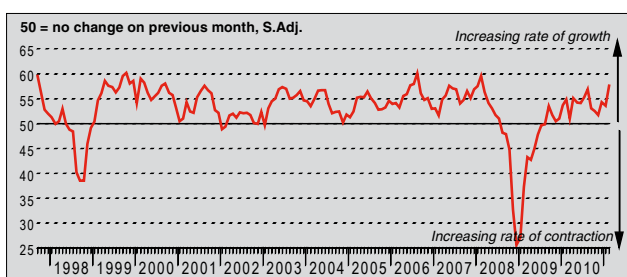
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



The manufacturing sector continued to experience lengthening input delivery times in February. This was indicated by the seasonally adjusted Suppliers' Delivery Times Index remaining below the no-change mark of 50.0, as has been the case since October 2008. Moreover, the Index remained below its long-run average of 48.4 during the latest period. Firms linked longer delivery times to rising demand, supply shortages and insufficient rail capacity.

Quantity of Purchases Index

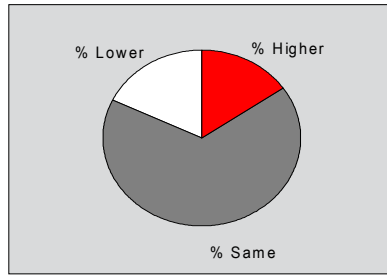
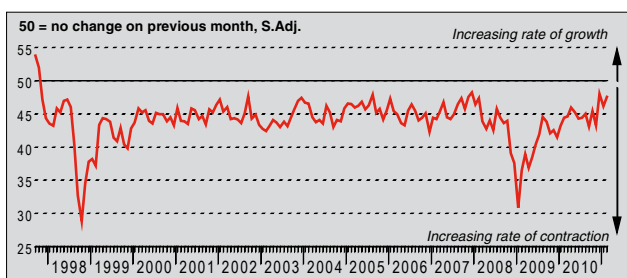
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



February data signalled the fastest rise in purchasing activity by Russian manufacturers for three years. The seasonally adjusted Quantity of Purchases Index resumed its upward trajectory, posting its steepest one-month increase in ten months. The current period of continuous expansion now extends to a year-and-a-half. Panellists linked rising input orders to improving demand for their goods and a subsequent rise in output.

Stocks of Purchases Index

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



Inventories of raw materials and other inputs held by Russian manufacturers continued to decline on average in February. Falling stocks were mainly linked to growth of output requirements and shortages of working capital. That said, the seasonally adjusted Stocks of Purchases Index rose on the month, to indicate a weaker rate of contraction. It also remained above its long-run average of 44.1.

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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