

HSBC Russia Manufacturing PMI™

Growth of Russian manufacturing output accelerated to highest since March 2008

Summary

Survey data compiled by Markit for HSBC revealed positive momentum in the Russian manufacturing sector in February. 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.

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. Both input and output price inflation remained substantial nonetheless, despite easing to four-month lows. 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.

Comment

Commenting on the Russia Manufacturing PMI survey, Alexander Morozov, Chief Economist (Russia and CIS) at HSBC, said:

"Manufacturing growth in Russia reached a multi-month peak in February, with strong rises in output, new orders, and employment. Companies reported an improvement in underlying demand conditions. Based on these data, we expect a positive surprise from industrial production data for February that will be released in mid-March."

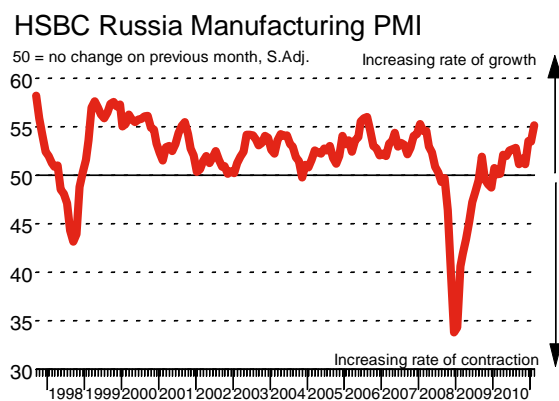
Similar to the early stage of the post-crisis industrial recovery, export demand and higher export prices drive the overall growth in manufacturing. A positive impact from the recent surge in crude oil prices on other sectors of the economy is still to be seen, we think."

PMI price indexes remain very high despite moderate declines in February. Strong demand growth and the continuing global commodity price rally will likely sustain high cost pressures and fast output price growth in manufacturing in the coming months."

Key points

- Manufacturing PMI rose to highest in over three years, at 55.2 (from 53.5 in January).
- 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.

Historical Overview



For further information, please contact:

HSBC

Julia Molchanova, Corporate Communications HSBC
Telephone + 7 495 721 1515
Email HSBC_Russia_PR@hsbc.com

Markit

Trevor Balchin, Senior Economist
Telephone +44-1491-461-065
Email trevor.balchin@markit.com

Caroline A. Lumley, Director, Corporate Communications
Telephone +44-20-7260-2047
Email caroline.lumley@markit.com

Notes to Editors:

The HSBC Russia Manufacturing PMI 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. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact economics@markit.com.

HSBC Group:

Headquartered in London, HSBC is one of the largest banking and financial services organisations in the world. Its international network comprises some 8,000 offices in 87 countries and territories in Europe; Hong Kong; Rest of Asia-Pacific; the Middle East; North America and Latin America. With assets of US\$2,418 billion at 30 June 2010, HSBC is one of the world's largest banking and financial services organisations. HSBC is marketed worldwide as 'the world's local bank'.

HSBC Group operates in Russia through OOO HSBC Bank (RR). HSBC Russia provides a wide range of corporate banking, investment banking and financial markets products and services to corporate and institutional customers. In June 2009 HSBC Russia launched the bank's world-class retail offering. Private banking services with an access to global HSBC resources are provided in Russia through HSBC Private Bank Moscow office.

About Markit:

Markit is a leading, global financial information services company with over 1,900 employees. The company provides independent data, valuations and trade processing across all asset classes in order to enhance transparency, reduce risk and improve operational efficiency. Its client base includes the most significant institutional participants in the financial market place. For more information, see www.markit.com.

About PMIs:

Now available for 26 countries and key regions including the Eurozone and BRIC, Purchasing Managers' Indexes™ (PMIs™) have become the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to www.markit.com/economics.

The intellectual property rights to the HSBC Russia Manufacturing PMI provided herein is owned by Markit Group Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit or the Bank shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit or the Bank be liable for any special, incidental, or consequential damages, arising out of the use of the data. Markit, PMI and Purchasing Managers' Index are all trademarks owned by The Markit Group.

The HSBC Group means HSBC Holdings plc, the company established in accordance with and regulated by the laws of England and Wales, and/or HSBC Bank plc, the Bank established in accordance with and regulated by the laws of England and Wales, and every company that is a member of the group, controlled by this Bank.

OOO HSBC Bank (RR) («Bank», «HSBC»). General license issued by the Bank of Russia 3290. 2 Paveletskaya Square, Building 2, Moscow 115054 Russia.