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HSBC Russia Manufacturing PMI™

Fastest rise in new orders in three years drove manufacturing expansion in March.

Key findings:

- Manufacturing PMI edged up to 55.6, its highest since August 2006.
- Output and employment continued to expand.
- Input price inflation slowed, but output prices rose at second-fastest pace since July 2008.

Survey data compiled by Markit for HSBC suggested that the Russian manufacturing sector continued to build on its positive start to 2011. Output continued to grow sharply, as new orders increased at the strongest pace for three years. Job creation was maintained, while input and output prices continued to rise rapidly.

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 improved further in March, rising to 55.6. That was the highest figure since August 2006, and rounded off the best average reading for any quarter since Q1 2008. Overall business conditions have improved for the past fifteen months. Following a lacklustre trend in 2010, the PMI has remained above its long-run average of 52.2 for the past four months.

New order growth continued to gain momentum in March. The latest increase was the strongest in three years, and extended the current sequence of expansion to twelve months. Data suggested that domestic demand was a key driver of business growth during the month, as new export orders increased at the slowest pace in the current four-month period of gains.

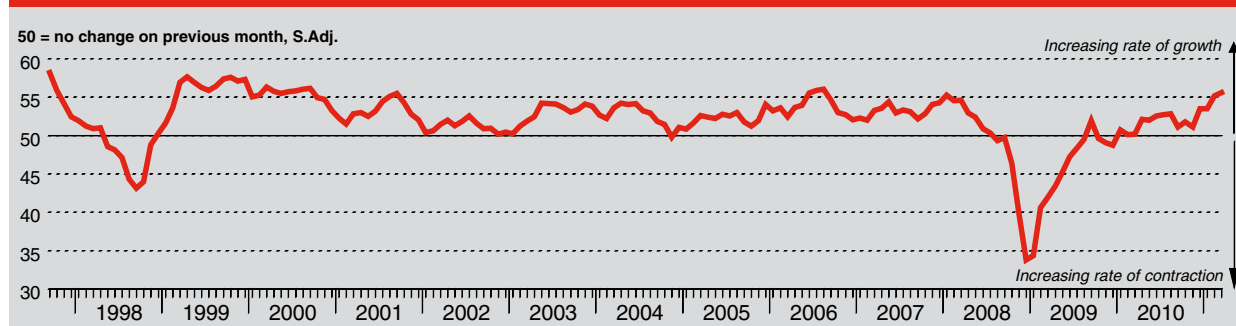
Output growth remained strong in March, and was close to its fastest in three years. Firms continued to work through existing workloads, as backlogs fell overall for the eighteenth month running. A number of companies reported productivity gains during the latest period.

The Russian manufacturing workforce expanded for the sixth month running in March. The current sequence is the longest in three-and-a-half years. The rate of increase remained solid, as close to 15% of survey respondents reported taking on more staff in March – more than double the proportion that cut headcounts.

Input price inflation eased for the second month running in March, but remained sharp overall. A wide range of raw materials and energy continued to be reported as having become more expensive during the month. As a result, manufacturers raised their output prices at the second-fastest rate for over two-and-a-half years in March.

Purchasing growth was maintained at the second-fastest rate in around three years in March. The volume of inputs held in stock in the manufacturing sector continued to fall overall, but at the weakest rate signalled by the survey for over thirteen years. This reflected efforts by a number of companies to build reserves in anticipation of the supply chain disruption resulting from the Japanese natural disaster.

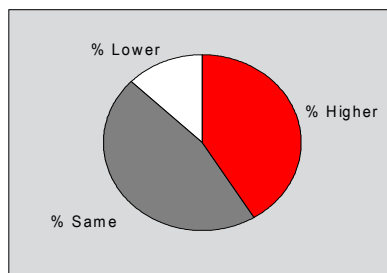
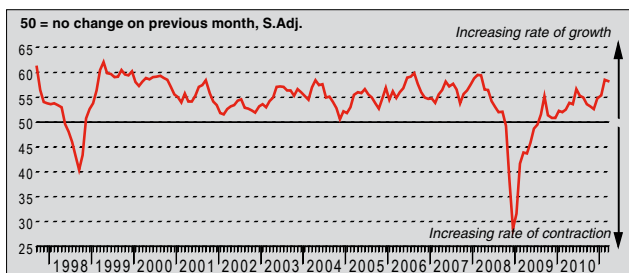
HSBC Russia Purchasing Managers' Index (PMI™)



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

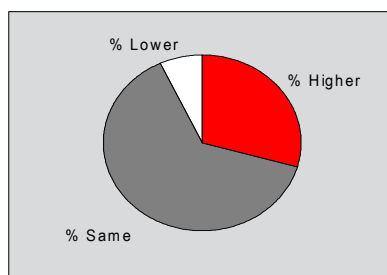
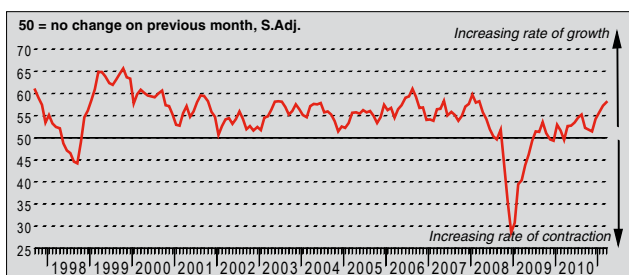
Q. Please compare your production/output this month with the situation one month ago.



Russian manufacturing production registered another sharp expansion in March. Firms reported a further improvement in new order intakes. The rate of output growth was little-changed from February's near-three year high. The average rate of growth over the first quarter as a whole was the fastest since Q1 2008. The current sequence of expansion now stretches to twenty months.

New Orders Index

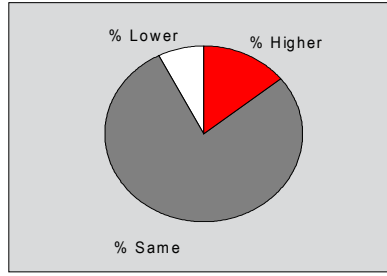
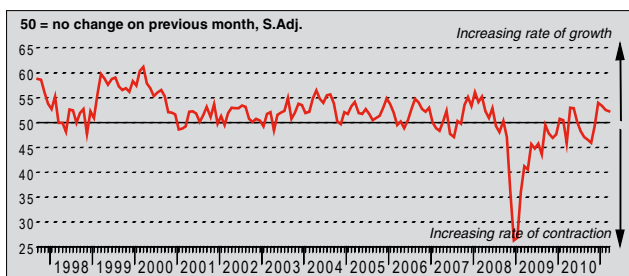
Q. Please compare the level of new orders received this month with the situation one month ago.



The rate of growth in new orders received by Russian manufacturers accelerated for the fourth month running in March. The seasonally adjusted New Orders Index remained above the no-change mark of 50.0 for the twelfth successive month, and signalled the fastest rate of expansion since March 2008. Firms highlighted new marketing activities and improving underlying domestic market conditions.

New Export Orders Index

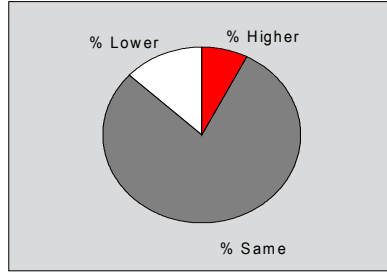
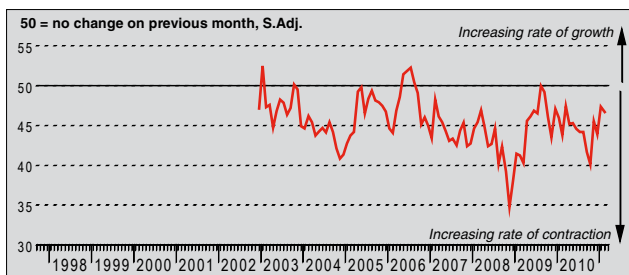
Q. Please compare the level of new export orders received this month with the situation of one month ago.



March data signalled a fourth successive monthly increase in the volume of new export business received by Russian manufacturers. This represents the longest sequence of growth since that which ended in June 2008. The seasonally adjusted New Export Orders Index remained above its long-run average of 51.6, but the latest reading signalled the slowest rate of expansion in the current period of growth.

Backlogs of Work Index

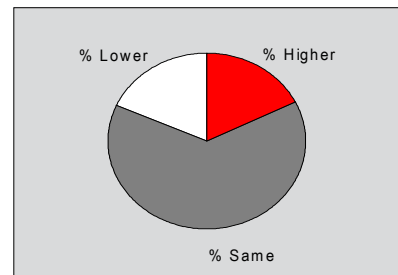
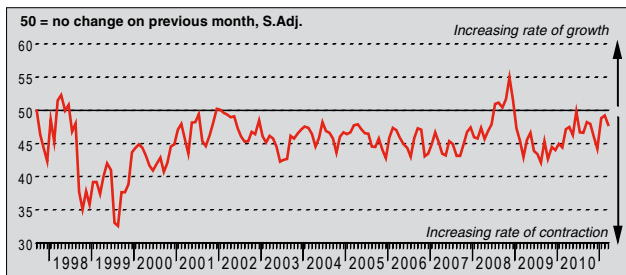
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



The volume of outstanding work held by Russian manufacturers declined for the eighteenth month in a row in March. The seasonally adjusted Backlogs of Work Index fell from February's ten-month high, signalling a sharper rate of contraction, but remained above its long-run trend level of 45.4. Some firms reported making productivity improvements during the month.

Stocks of Finished Goods Index

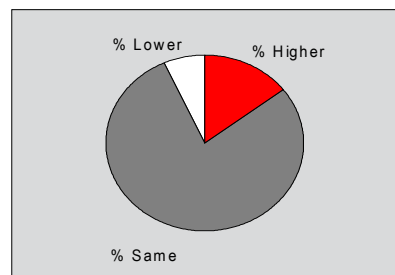
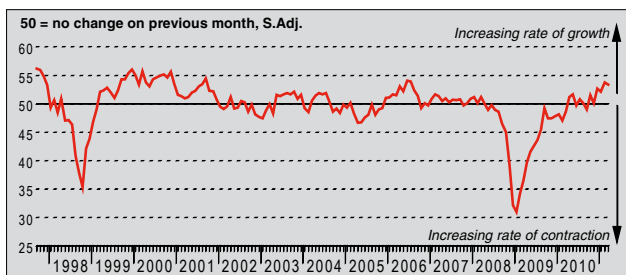
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Finished goods stocks at Russian manufacturers continued to contract on average in March. Lower inventories were primarily attributed to rising sales. The seasonally adjusted Stocks of Finished Goods Index remained below the no-change mark of 50.0 for the twenty-seventh successive month, and the latest figure signalled the sharpest rate of decline of 2011 so far. That said, it remained above its long-run trend level of 45.4.

Employment Index

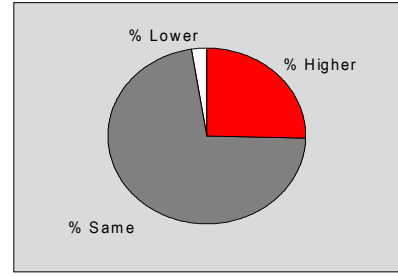
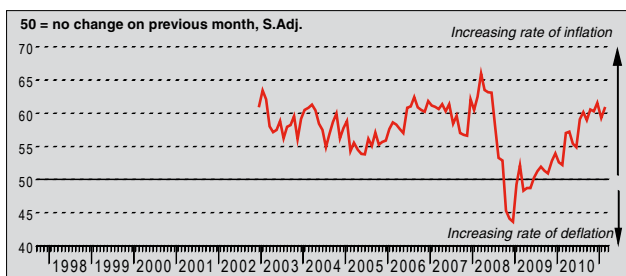
Q. Please compare the level of employment at your unit with the situation one month ago.



The ongoing marked growth in new orders led to a further rise in manufacturing employment in Russia at the end of the first quarter. Firms linked recruitment to rising demand and investment in new plant capacity. The sector's workforce has expanded every month since last October, the longest sequence of continuous growth for three-and-a-half years. The rate of job creation eased slightly, but was still the second-fastest since July 2006.

Output Prices Index

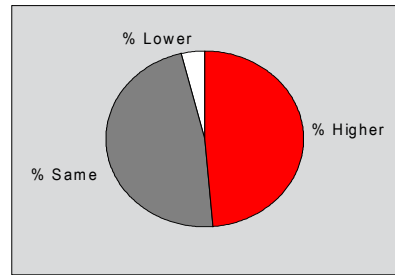
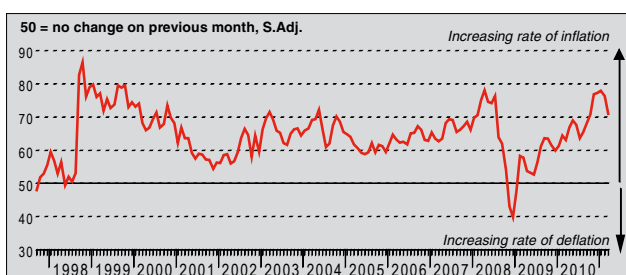
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Manufacturers continued to raise their output prices at a rapid pace in the latest period. The seasonally adjusted Output Prices Index rose slightly from February's four-month low, to the second-highest since July 2008. Around one-quarter of the survey panel reported higher charges during the month, linked to rising costs for raw materials and energy.

Input Prices Index

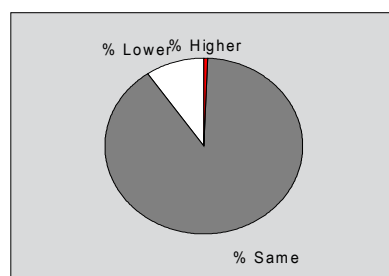
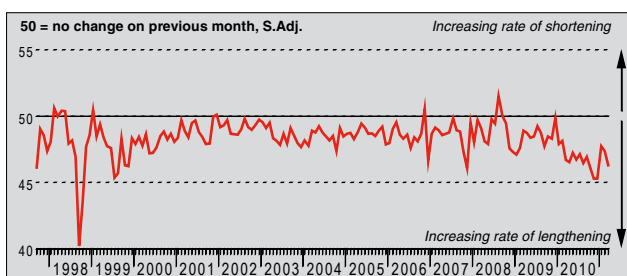
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Average input prices paid by Russian manufacturers continued to rise sharply in March. The rate of inflation slowed further from January's thirty-three month high, to the weakest since last October. However, the seasonally adjusted Input Prices Index remained comfortably above its historic average of 64.8. Firms reported that energy and a wide range of raw materials had risen in price during the month.

Suppliers' Delivery Times Index

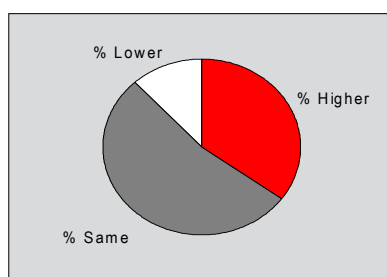
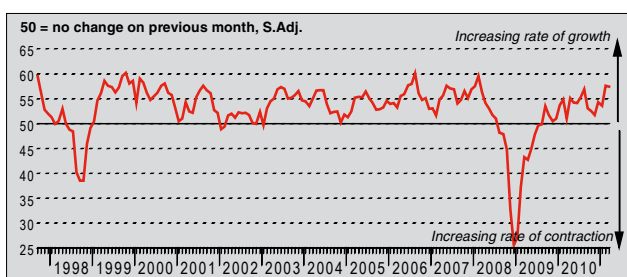
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Vendor performance continued to deteriorate in March, reflecting a further sharp rise in demand for inputs by manufacturers. The seasonally adjusted Suppliers' Delivery Times Index fell slightly, to signal the greatest lengthening in delivery times in 2011 so far. Firms also blamed delays from suppliers to shortages of raw materials and higher railway charges.

Quantity of Purchases Index

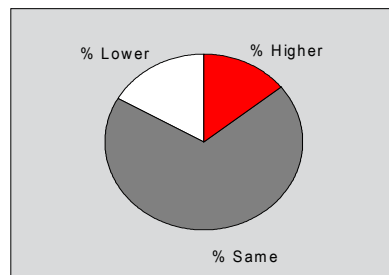
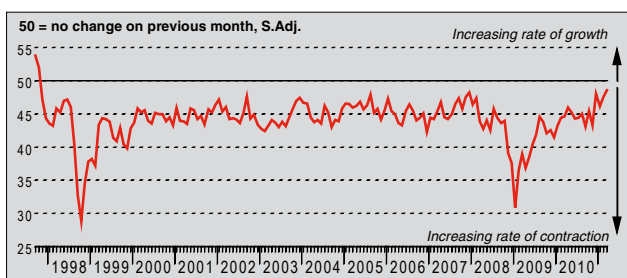
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



March data signalled a further rise in the volume of inputs ordered by Russian manufacturers. The seasonally adjusted Quantity of Purchases Index was little-changed from February's three-year high, indicating a sharp rate of growth. Purchasing volumes have risen every month since September 2009. Firms linked increased purchases to rising output requirements and building reserves in anticipation of further supply disruptions.

Stocks of Purchases Index

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



Russian manufacturers continued to streamline their stocks of inputs on average in March. That said, the seasonally adjusted Stocks of Purchases Index rose to its highest since October 1997, signalling the weakest rate of decline in the survey history. This reflected more firms electing to build reserves of stock ahead of potential supply disruptions.

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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