HSBC Purchasing Managers' Index™ Press Release

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compiled by markit

HSBC Russia Manufacturing PMI™

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

Summary

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.

The headline HSBC Russia Manufacturing PMI™, a composite index designed to track overall business conditions – 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. Following a lacklustre trend in 2010, the PMI has remained above its long-run average of 52.2 for the past four months. Any figure greater than 50.0 signals improvement, below 50.0 contraction.

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, as new export orders increased at the slowest pace in the current four-month sequence.

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.

The Russian manufacturing workforce expanded for the sixth month running in March. The current sequence is the longest in three-and-a-half years.

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.

Comment

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

"Growth momentum in the Russian manufacturing has reached a 4.5 year high in March, HSBC Manufacturing PMI said. While export demand growth has eased marginally, domestic demand has picked up strongly prompting manufacturers to continue active hiring. Although cost pressures have declined sharply in March, they are at historically high levels. Output prices growth has accelerated, apparently reflecting the rising ability of producers to pass on still fast-rising costs to their customers amidst stronger customer demand. It allows us to expect another high PPI print for March.

In a nutshell, the PMI report draws a benign picture of fast-growing manufacturing that can hardly catch up with the rising demand, increasing employment, and reducing inventories. Official data on industrial production growth will show it soon, we believe. This is in line with what one would expect after a surge in oil prices. We think that strong growth momentum in manufacturing has a good chance to sustain in the near-term. From the sector's perspective, the current policy mix looks too dovish as inflation risks keep dominating."

Key points

- Manufacturing PMI edged up to 55.6, 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.

Historical Overview

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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 7,500 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$2,455 billion at 31 December 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 2,000 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.