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HSBC Russia Manufacturing PMI™

Sharp slowdown in new order growth led to weaker rise in output.

Key findings:

- Manufacturing PMI fell to five-month low of 52.1.
- Input price inflation eased further to eight-month low.
- Employment rose for seventh month running, but only marginally.

Survey data compiled by Markit for HSBC signalled faltering growth of the Russian manufacturing sector in April, following a strong first quarter. The main factor behind the loss of momentum was a much slower increase in new orders, which generated weaker gains in output, purchasing activity and employment. The latest survey also highlighted a further easing in the rate of input price inflation, leading to a softer rise in output prices – but inflationary pressures nevertheless remained sharp overall.

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 fell for the first time in five months in April. The latest figure of 52.1 was the lowest since last November, and the monthly drop in the Index (from 55.6 in March) was the largest observed since December 2008. All five components contributed to the fall in the headline index. Nonetheless, the current sequence of overall improvement in business conditions was maintained for the sixteenth month running, and the PMI was broadly in line with its long-run average during the month.

New business rose for the thirteenth month in a row in April. The pace of growth slowed sharply, however, to the weakest since last November. Moreover, the volume of new export

orders declined for the first time in five months.

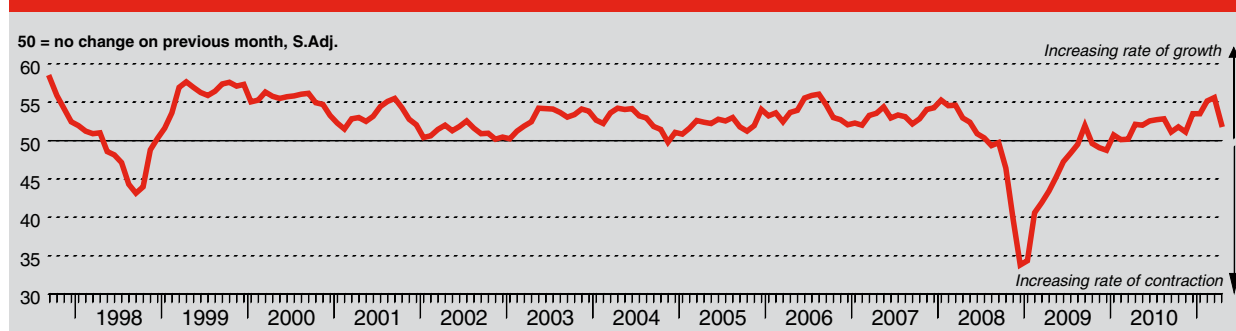
The deterioration in new order expansion led to a slower rise in production in April. The current period of growth was extended to twenty-one months, but at the weakest pace since last November. That said, the pace of expansion was slightly faster than the historic average for the survey. Slower gains in new work also led to the sharpest fall in backlogs for five months.

Input prices rose sharply in April, with the rate of inflation continuing to run above its long-run average despite slowing further to an eight-month low. Raw materials and energy prices were again highlighted as having driven cost pressures. Manufacturers hiked their output prices in response to rising costs, and the rate of charge inflation remained above the long-run average despite easing to a nine-month low.

The current strength of business conditions was sufficient to generate a further rise in manufacturing employment in April, extending the current sequence of hiring growth to seven months. However, as new orders rose more slowly, the rate of job creation eased to a marginal pace.

Weaker new business flows also led to a moderation in growth of purchasing activity by Russian manufacturers in April. This alleviated pressure on suppliers somewhat, as average input delivery times lengthened to the weakest extent since December 2009.

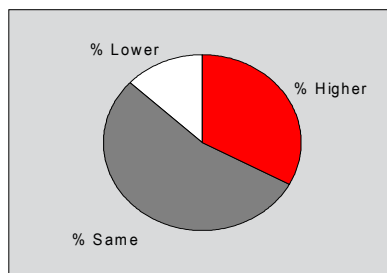
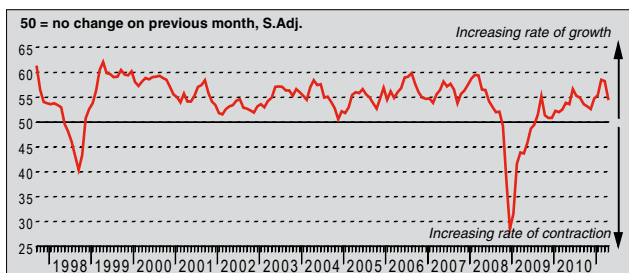
HSBC Russia Purchasing Managers' Index (PMI™)



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

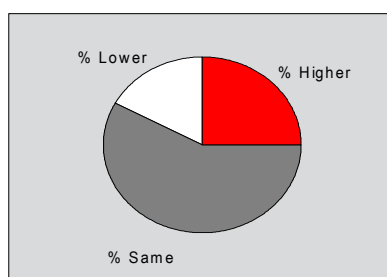
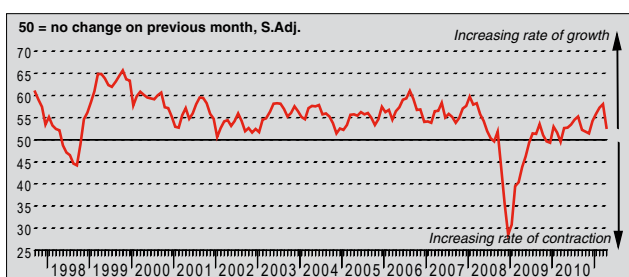
Q. Please compare your production/output this month with the situation one month ago.



Growth of Russian manufacturing production slowed in April. The seasonally adjusted Output Index fell further from February's near-three year high, posting the steepest month-on-month drop in a year-and-a-half. The rate of expansion signalled was the slowest since last November, but nevertheless strong in comparison to the survey's long-run average. The moderation in growth in April mainly reflected a much slower rise in the volume of new orders received compared to March.

New Orders Index

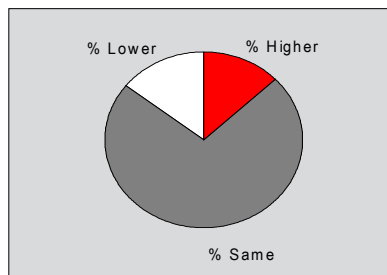
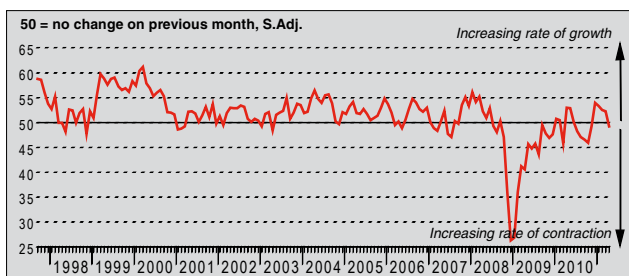
Q. Please compare the level of new orders received this month with the situation one month ago.



Russian manufacturing new orders rose for the thirteenth month running in April. Reasons for new order growth included new products, solid domestic demand and new clients. The rate of expansion slowed sharply, however, as signalled by the seasonally adjusted New Orders Index recording its steepest one-month fall since December 2008. The latest figure indicated the weakest rate of growth in five months, and was below the long-run average for the series for the first time in 2011 so far.

New Export Orders Index

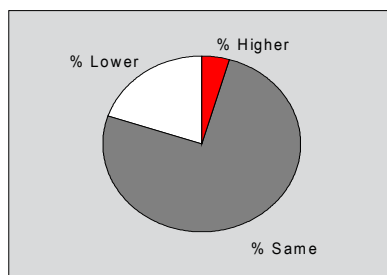
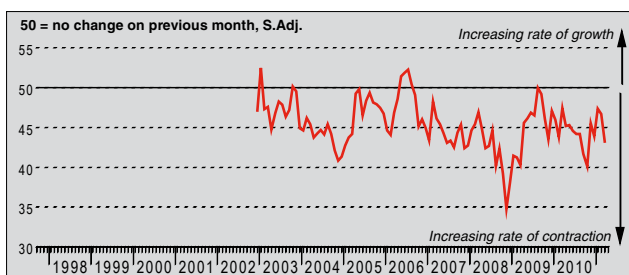
Q. Please compare the level of new export orders received this month with the situation of one month ago.



New export orders received by Russian manufacturers declined in April, marking the first contraction in five months. That said, the seasonally adjusted New Export Orders Index signalled only a marginal rate of reduction. The Index has fallen throughout 2011 so far, having previously reached a thirty-three month high last December.

Backlogs of Work Index

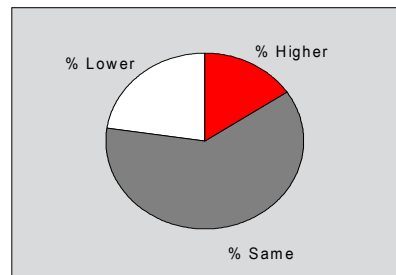
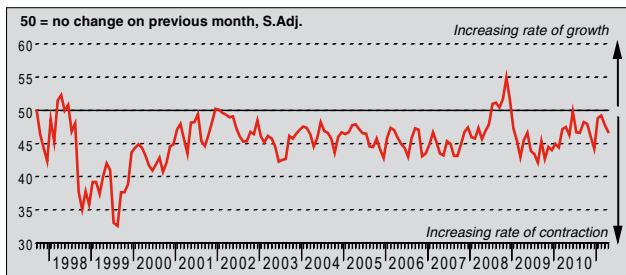
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



The volume of outstanding business in Russia's manufacturing sector declined sharply in April. The seasonally adjusted Backlogs of Work Index fell further from February's ten-month high, to signal the fastest rate of contraction since last November. Backlogs have declined continuously since October 2009, evidence of a lack of pressure on capacity in the sector. Some firms linked lower levels of outstanding business to productivity improvements.

Stocks of Finished Goods Index

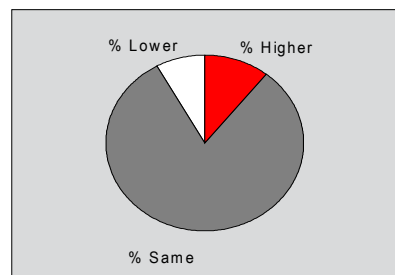
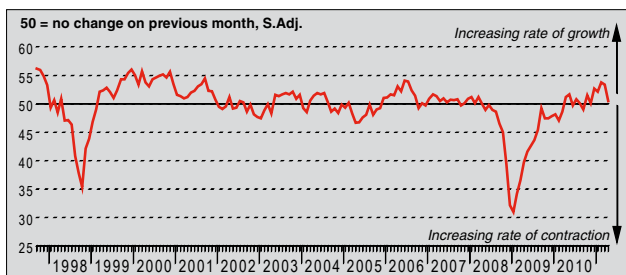
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Post-production inventories in the Russian manufacturing sector continued to decline on average in April. Around 23% of survey respondents reported lower stocks of final products, compared to almost 16% that stated increases. The latest data signalled the fastest rate of contraction in four months, albeit one that remained weaker than the long-run survey average.

Employment Index

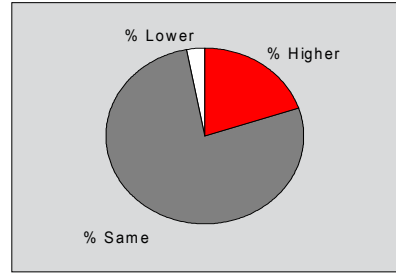
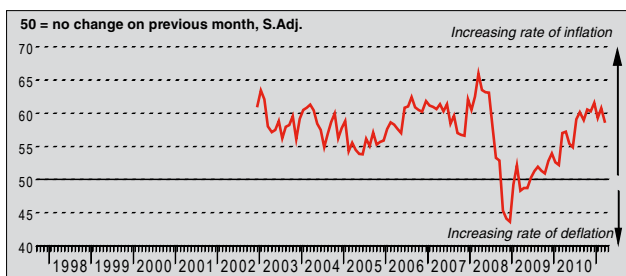
Q. Please compare the level of employment at your unit with the situation one month ago.



April marked a seventh successive monthly expansion of the Russian manufacturing workforce. That was the longest sequence of continuous job creation in the sector in over three-and-a-half years. Recruitment was attributed to higher production requirements. However, the rate of growth slowed further from February's fifty-five month high, to a marginal pace.

Output Prices Index

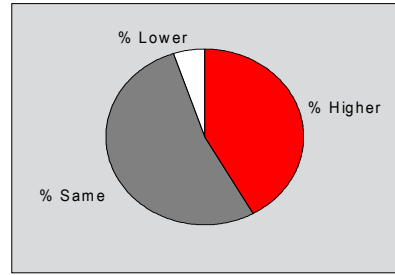
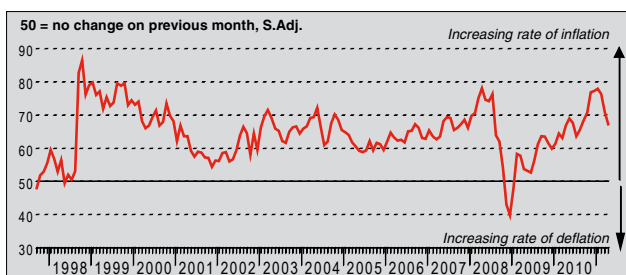
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Average prices charged by Russian manufacturers continued to rise sharply in April. Around one-in-five companies reported higher charges during the month, mainly linked to attempts to recoup rising costs. The current sequence of output price inflation now stretches to twenty-two months. The seasonally adjusted Output Prices Index remained above its long-run average, but fell since March to a nine-month low.

Input Prices Index

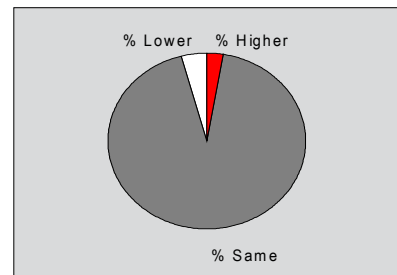
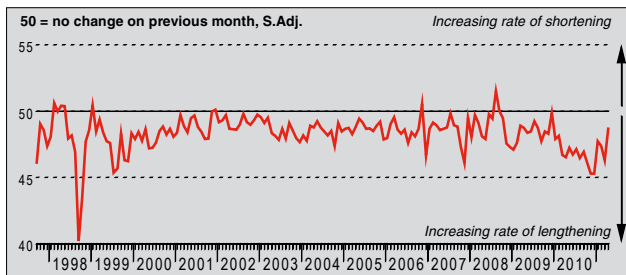
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Russian manufacturers paid higher prices for their inputs on average in April. Around 42% of companies reported rising input prices, mainly citing raw materials such as metals and oil-related products. The seasonally adjusted Input Prices Index remained above its historic average, but fell for the third month running from January's thirty-three month high. The latest figure signalled the slowest rate of input cost inflation for eight months.

Suppliers' Delivery Times Index

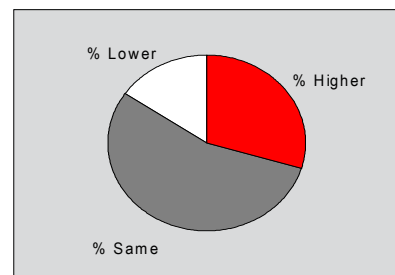
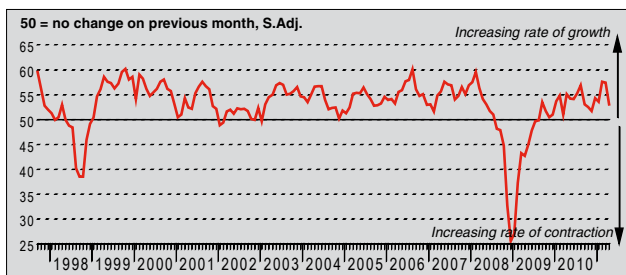
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Suppliers' delivery times lengthened for the thirty-first month running in April, linked by panellists to ongoing input shortages. However, the rate of deterioration eased during the month, resulting in the least substantial lengthening in times since December 2009. Reflective of this, around 93% of companies reported no change in supplier performance compared to one month earlier.

Quantity of Purchases Index

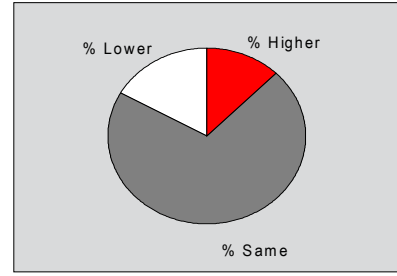
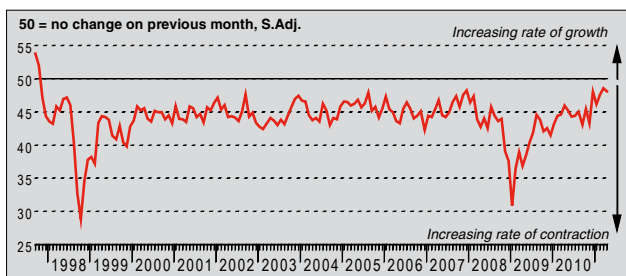
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Reflecting the much weaker rises in both output and new orders at the start of the second quarter, growth of purchasing activity by Russian manufacturers slowed in April. Having signalled marked growth the previous two months, the seasonally adjusted Quantity of Purchases Index fell to a five-month low. That said, the current sequence of continuous expansion now stretches to twenty months.

Stocks of Purchases Index

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



Pre-production inventories in the Russian manufacturing sector continued to decline on average in April. The seasonally adjusted Stocks of Purchases Index remained below the neutral threshold of 50.0, as around 17% of companies reported cutting their warehouse holdings of inputs. Some firms reported that previous purchases had been sufficient to meet current output requirements, and allowed stocks to fall as a result.

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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