

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

## HSBC Russia Manufacturing PMI®

Russian manufacturing business climate improved only marginally in May.

### Key findings:

- Manufacturing PMI close to neutrality at 50.7.
- Weakest rise in output since December 2009.
- Input price inflation slowed to twenty-two month low.

HSBC survey data compiled by Markit signalled a near-stagnation of Russian manufacturing growth in May and a sharp easing in cost inflationary pressure. Output growth slowed to a modest pace as new orders were broadly flat over the month, while stocks of finished goods rose as sales disappointed.

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 dropped to 50.7 in May, only just above neutrality. It has now fallen by 4.9 points from March's fifty-five month high of 55.6, the largest sustained decline recorded since the financial crisis of late-2008. The fall in the PMI reflected weaker contributions from the output and new orders components and, to a lesser extent, stocks of purchases.

Latest data signalled that new order intakes were fractionally lower in May than one month earlier. Domestic demand faltered, while new export orders were largely unchanged on the month. The overall stagnation in new orders brought to an end a sequence of continuous expansion that stretched back to April 2010.

Production growth was maintained for the twenty-second

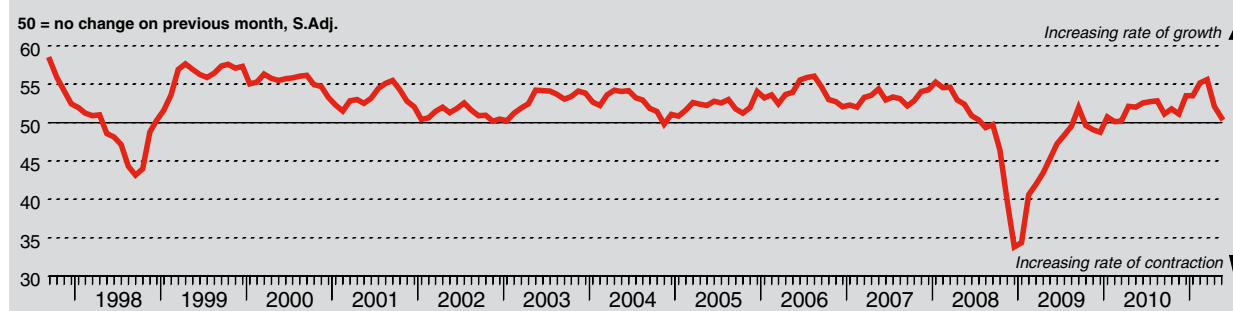
month running in May, but at a reduced rate. The pace of expansion has slowed continuously since hitting a near three-year high in February, with the latest growth the weakest since December 2009. The muted trend in market conditions in the manufacturing sector was underlined by the steepest drop in backlogs of work in six months, and a rise in stocks of finished goods as sales disappointed.

Inflationary pressures eased in May to the greatest extent seen since the onset of the global financial crisis, reflecting the recent falls in commodity prices. Input price inflation slowed for the fourth successive month from January's recent high, and was the weakest since July 2009. Input price inflation was also low in the context of historic survey data.

Russian manufacturers increased their prices charged for the twenty-third successive month in May. The rate of inflation slowed, however, in line with the trend seen for input prices. The latest increase was the weakest since last July, and slower than the long-run survey average.

A bright point from the latest survey was a further increase in manufacturing employment. The current period of jobs growth now stretches to eight months, although the latest increase was weaker than the average over this sequence. Firms also raised their input buying despite the flat trend in new orders, albeit at the weakest rate since last November.

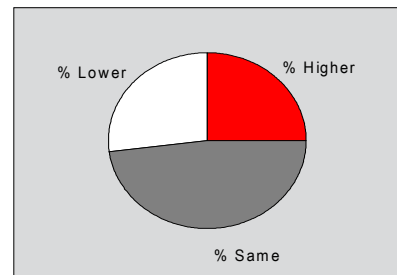
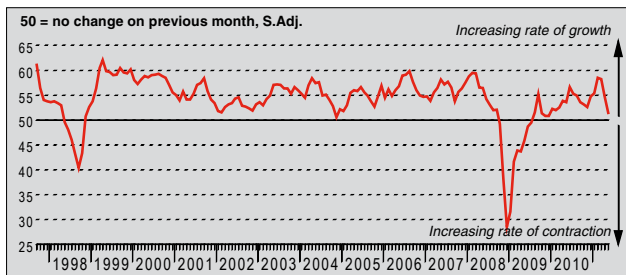
### HSBC Russia Purchasing Managers' Index™ (PMI®)



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. Purchasing Managers' Index™ and PMI® are trade marks of Markit Economics Limited, HSBC use the above marks under licence. Markit and the Markit logo are registered trade marks of Markit Group Limited.

## Output Index

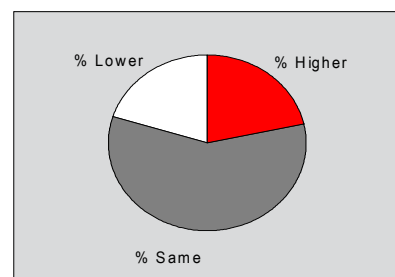
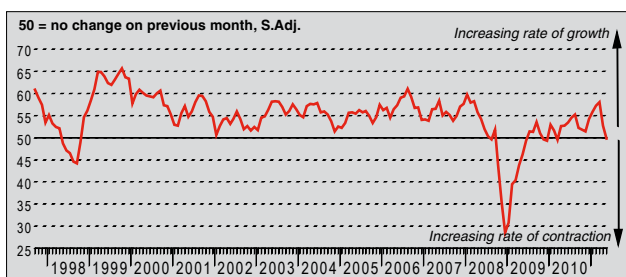
Q. Please compare your production/output this month with the situation one month ago.



Output growth in the Russian manufacturing sector slowed to a modest pace in May. The seasonally adjusted Output Index fell for the third successive month, and signalled the weakest rate of expansion since December 2009. It was also below its long-run average of 54.4 during the latest period. A number of companies reported the loss of market share during the month as competitive pressures increased.

## New Orders Index

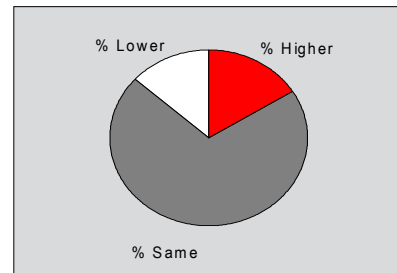
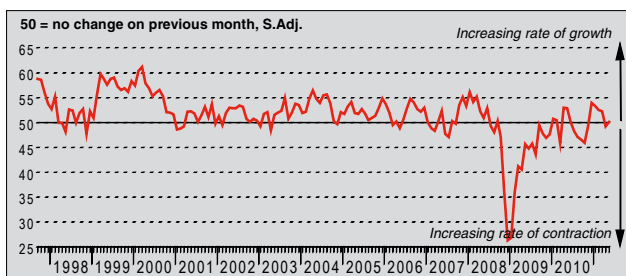
Q. Please compare the level of new orders received this month with the situation one month ago.



May data signalled a broadly stagnant trend in new order inflows in the Russian manufacturing sector. The seasonally adjusted New Orders Index fell for the second month running from March's three-year high, to a level fractionally below the no-change mark of 50.0. That signalled a negligible drop in new business, ending a thirteen-month sequence of continuous expansion. A number of firms reported a drop-off in demand for their goods during the month, with one-in-five reporting lower new work than in April.

## New Export Orders Index

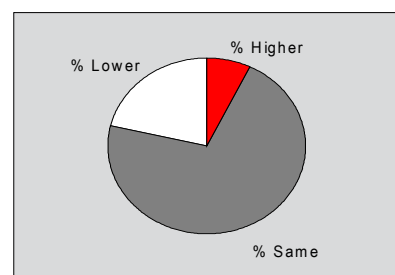
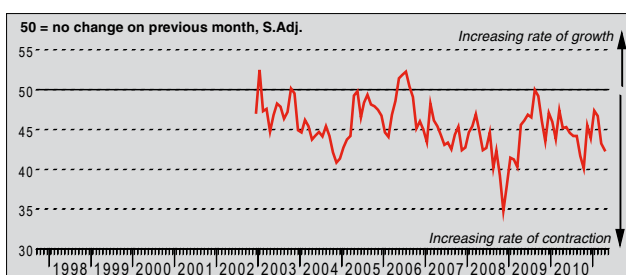
Q. Please compare the level of new export orders received this month with the situation of one month ago.



The volume of new work received by Russian manufacturers from export markets was broadly unchanged from one month earlier in May. The seasonally adjusted New Export Orders Index rose above the neutral 50.0 mark, but signalled only a negligible increase in new export contracts. Prior to April new export orders had risen for four successive months, the longest sequence of growth for over two-and-a-half years.

## Backlogs of Work Index

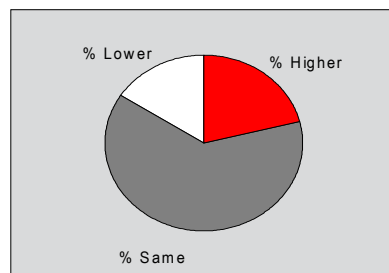
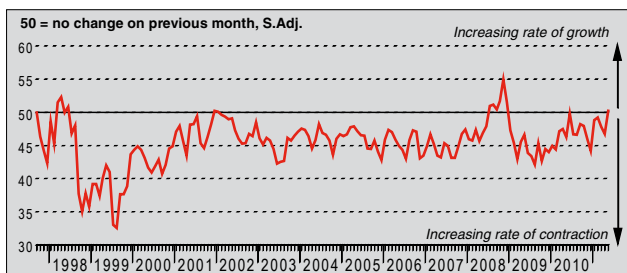
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Spare capacity in the Russian manufacturing sector remained in May. The seasonally adjusted Backlogs of Work Index signalled contraction, as it has done every month since October 2009. Moreover, the rate of decline was the fastest since last November. Firms generally reported that current levels of demand had not placed pressure on production schedules.

### Stocks of Finished Goods Index

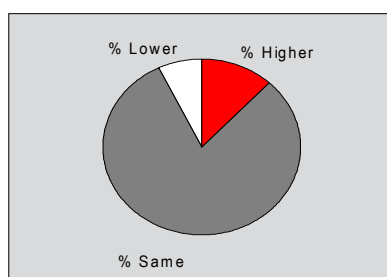
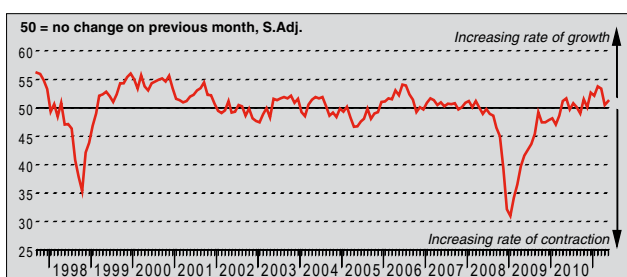
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Russian manufacturers' holdings of final products grew slightly in May. The seasonally adjusted Stocks of Finished Goods Index rose above the no-change mark of 50.0, signalling the first overall increase in post-production inventories since December 2008. A number of survey respondents reported that inventory growth reflected a build-up of unsold stock as a result of disappointing sales.

### Employment Index

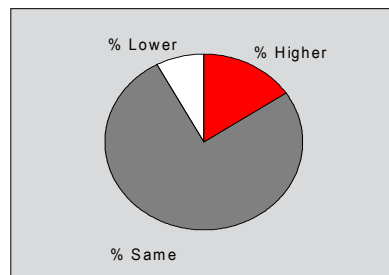
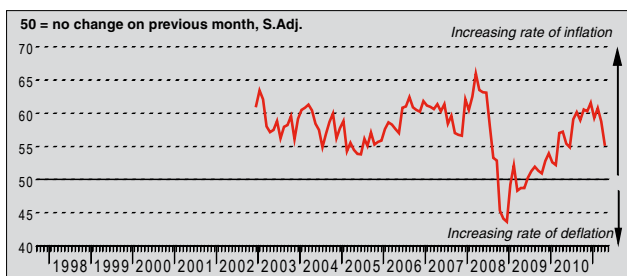
Q. Please compare the level of employment at your unit with the situation one month ago.



Manufacturers in Russia expanded their workforces on average in May, linked to higher new orders and rising output requirements. Continuous growth in employment has now been sustained for eight months. The rate of job creation accelerated slightly since April, but remained modest. That said, the seasonally adjusted Employment Index was greater than its long-run average during the month.

### Output Prices Index

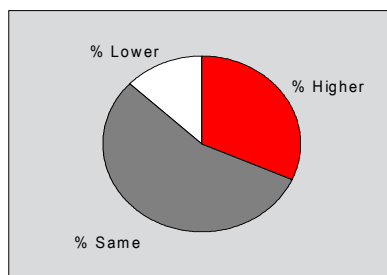
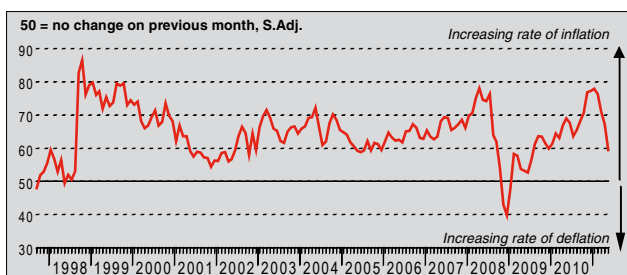
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Average prices charged by Russian manufacturers rose for the twenty-third successive month in May, attributed by respondents to higher input prices. That said, the rate of output price inflation slowed further, and was well down on January's two-and-a-half year high. The seasonally adjusted Output Prices Index recorded the steepest one-month drop for more than two years, to a ten month low. It was also weaker than its long-run average during the month (57.2).

### Input Prices Index

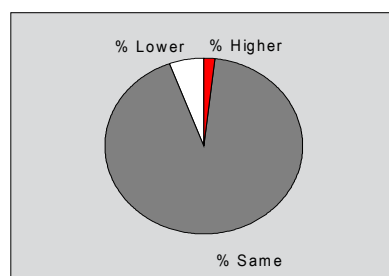
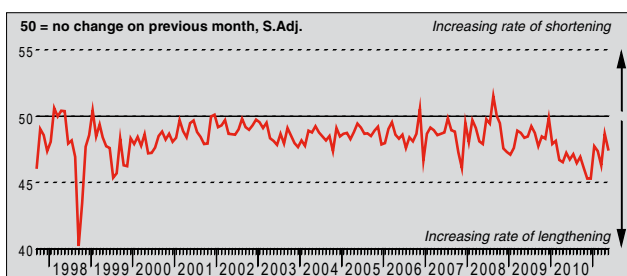
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



The rate of input price inflation in the Russian manufacturing sector eased for the fourth month running in May. The seasonally adjusted Input Prices Index signalled the weakest rate of inflation since July 2009, and was below its long-run average. Since January the Index has fallen by a combined 18.5 points, a decline not registered since the financial crisis of late-2008. Anecdotal evidence mainly linked rising overall input prices to oil-related products and energy prices.

## Suppliers' Delivery Times Index

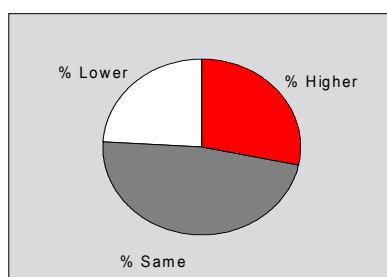
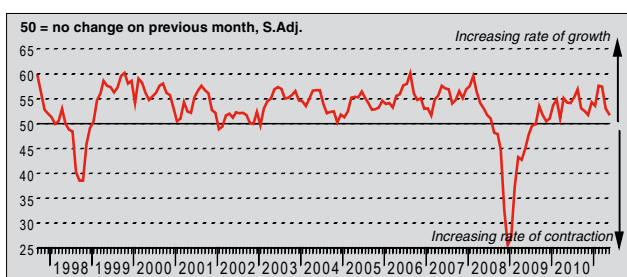
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Vendor performance in the Russian manufacturing sector continued to worsen in May. The average time taken for suppliers to deliver inputs has lengthened every month since October 2008. Some respondents reported shortages of stock at vendors. The seasonally adjusted Suppliers' Delivery Times Index signalled a greater incidence of delays than in the previous month.

## Quantity of Purchases Index

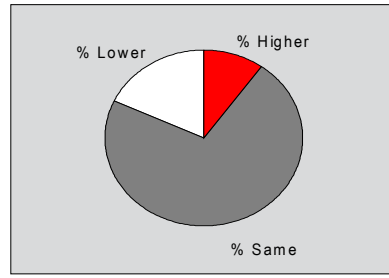
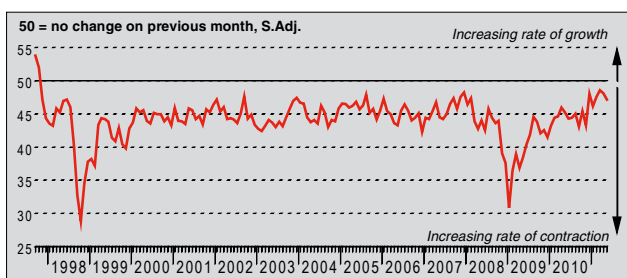
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



The current sequence of purchasing growth in the Russian manufacturing sector was extended to twenty-one months in May. Firms linked higher input orders to new business, rising output and expectations of demand growth. That said, the pace of expansion slowed for the third month running, as signalled by a further fall in the seasonally adjusted Quantity of Purchases Index. The latest figure was the lowest since last November and also below the long-run trend (53.0).

## Stocks of Purchases Index

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



The level of inputs held in stock in the Russian manufacturing sector continued to decline in May. The seasonally adjusted Stocks of Purchases Index remained below the no-change mark of 50.0, and fell since the previous month to signal a sharper rate of contraction. Almost twice as many companies reported cutting raw material stocks as those stating increases during the month.

## 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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