HSBC *Purchasing Managers' Index*™ 2011

compiled by markit

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

HSBC Russia Manufacturing PMI®

Further sluggish growth of Russian manufacturing production in June.

Key findings:

- Manufacturing output continued to rise only modestly.
- Marginal gain in new orders.
- Fall in manufacturing employment.

HSBC *PMI*® survey data compiled by Markit signalled a further lacklustre improvement in business conditions in the Russian manufacturing sector in June. Output growth remained modest, while new orders rose only marginally and backlogs declined further. Moreover, firms cut staffing levels for the first time since last September. Input price inflation remained lower than the historic survey average, despite accelerating slightly since May.

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 remained above the no-change mark of 50.0 for the eighteenth successive month in June, but edged closer to neutrality at 50.6. That was the lowest reading since March 2010, and well below the long-run average of 52.1. The downward movement in the PMI mainly reflected a weaker contribution from the employment component.

Growth of Russian manufacturing output was maintained for the twenty-third month running in June. The rate of expansion remained weak, however, having slowed markedly from February's near three-year high.

The main factor underpinning sluggish production growth was a subdued trend in new business. Having been stagnant in May, the volume of new orders rose only marginally in June. Data signalled that demand from both domestic and export markets was weak. Firms continued to raise their input purchases during the latest period, but the rate of growth remained modest.

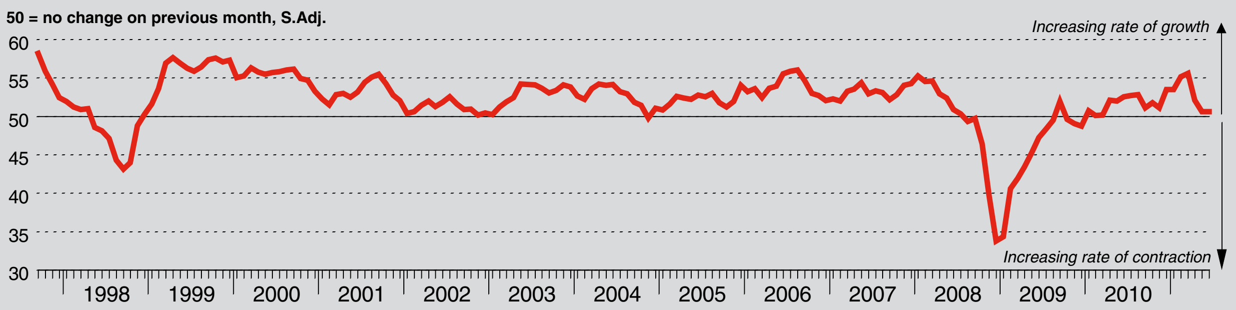
The weak increase in new business in June was not sufficient to generate overall growth of the Russian manufacturing workforce. Prior to June, employment had risen for eight successive months, the longest sequence since 2007. That said, the rate of decline in headcounts in the latest period was only marginal.

With incoming new work rising only fractionally in June, the volume of backlogs fell sharply. Outstanding business has declined every month since October 2009.

Input price inflation was broadly similar to May's twenty-two month low in June, remaining weaker than the long-run survey average. That said, the rate of inflation strengthened for the first time in five months. Firms reported energy, metals and construction materials as having risen in price compared with one month earlier.

Prices charged for Russian manufactured goods rose in June, as they have throughout the past two years. The rate of factory gate price inflation slowed for the third month running, however, to the weakest since July 2010.

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



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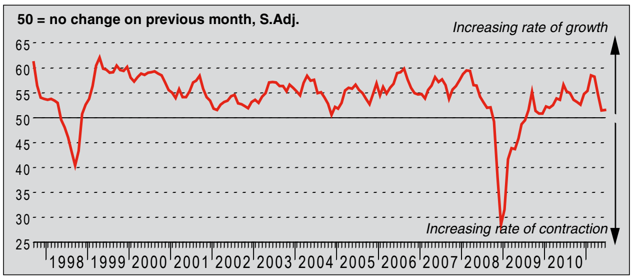
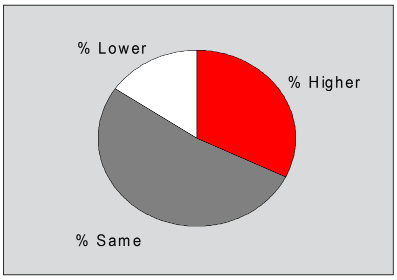
Output Index

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

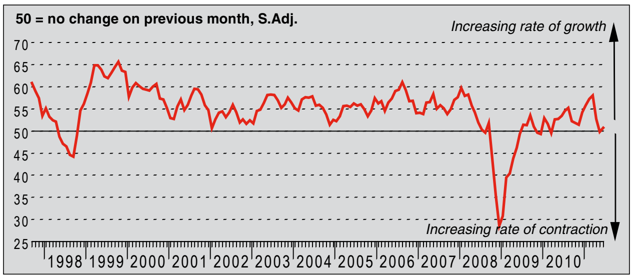


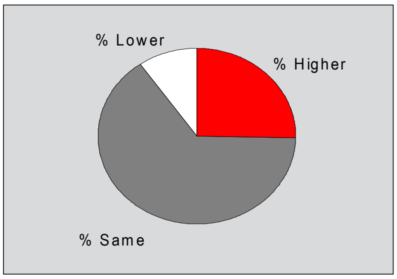


Manufacturing output in Russia continued to rise in June. Production growth was linked by survey respondents to increased demand. The current sequence of expansion now stretches to twenty-three months. That said, the seasonally adjusted Output Index remained at a level indicative of a weak rate of growth, little-changed from May's seventeen-month low. The Index was well below its long-run average of 54.3.

New Orders Index

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

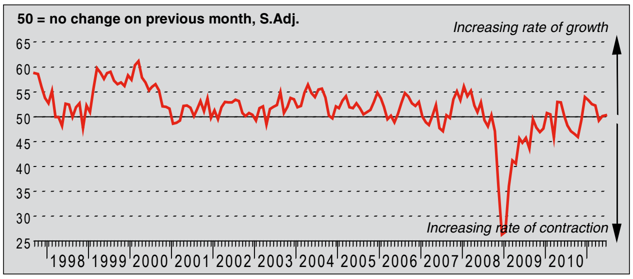


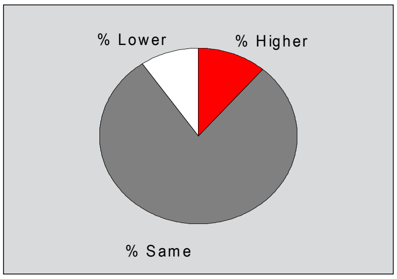


The seasonally adjusted New Orders Index rose above the no-change mark of 50.0 in June, indicating a rise in the volume of new business received by Russian manufacturers. That followed a fractional contraction in May, the first decline since March 2010. The rate of growth in the latest period was only marginal, however, and well below the long-run survey average. Firms reported increased orders from both domestic and export markets.

New Export Orders Index

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

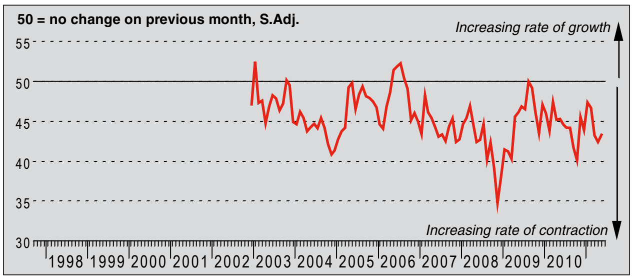


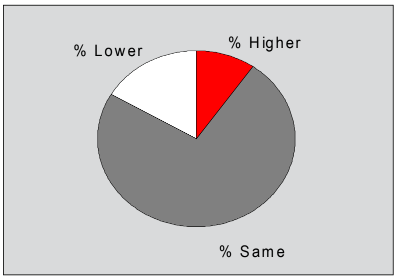


The overall level of new export business rose for the second month running in June. The seasonally adjusted New Export Orders Index remained only just above neutrality, however, indicating a marginal rate of expansion. Around 11% of survey respondents reported growth of new export orders compared with May, while around 10% stated a decline.

Backlogs of Work Index

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

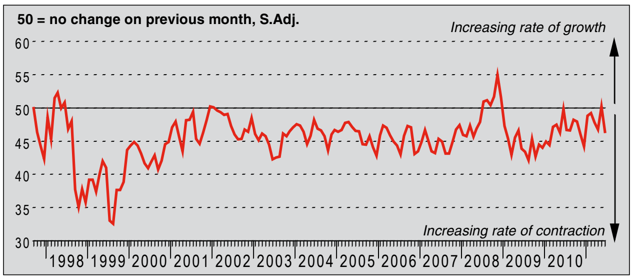


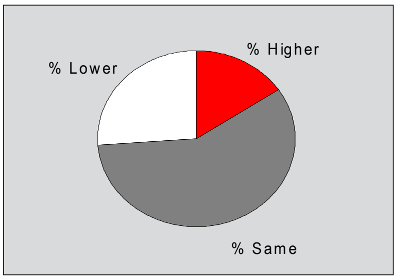


There remained spare capacity in the Russian manufacturing sector in June, as suggested by a further decline in the volume of outstanding business. The seasonally adjusted Backlogs of Work Index remained indicative of a sharp rate of contraction, albeit the weakest in three months. Backlogs have fallen every month since October 2009.

Stocks of Finished Goods Index

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

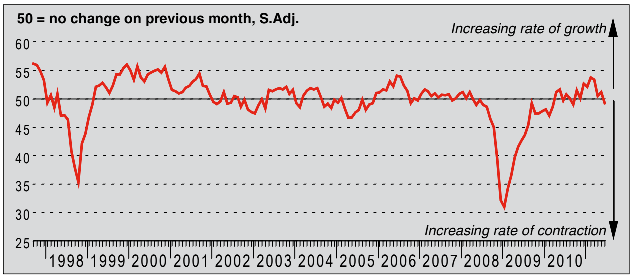


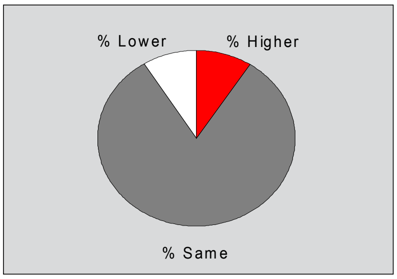


Having risen for the first time in around two-and-a-half years in May, stocks of final products at Russian manufacturers declined in June. The seasonally adjusted Stocks of Finished Goods Index slipped back below the no-change mark of 50.0, and the latest figure indicated the fastest rate of contraction since last December. Lower warehouse stocks were the result of efforts to control inventories.

Employment Index

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

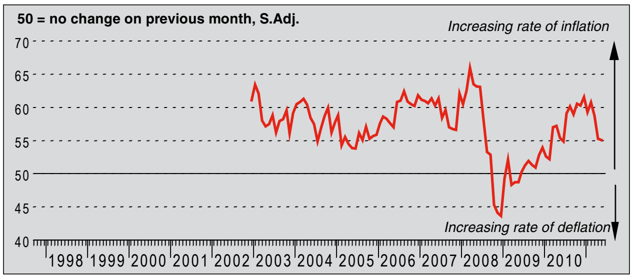


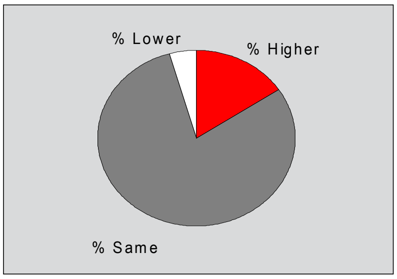


Manufacturing employment in Russia declined in June. That followed an eight-month sequence of sustained job creation. However, the seasonally adjusted Employment Index was only slightly below neutrality, indicating a marginal degree of job shedding. Of the 8.9% of firms that reported lower staffing, the underlying factor was subdued market conditions.

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.

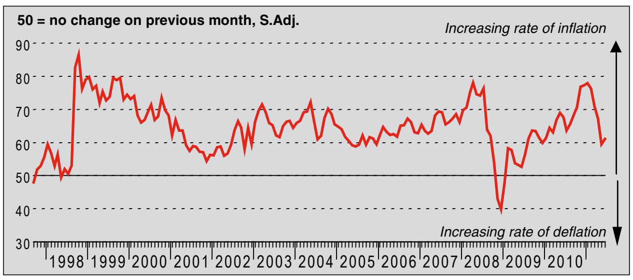


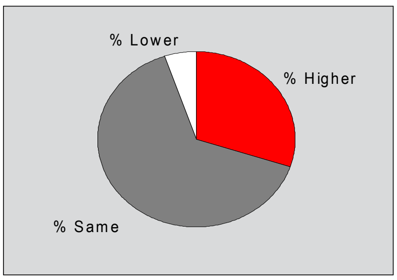


Prices charged for Russian manufactured goods rose in June, extending the current sequence of inflation to two years. Higher charges were primarily attributed by survey respondents to rising input prices and energy costs. That said, the seasonally adjusted Output Prices Index fell for the third month running, and the latest figure signalled the weakest rate of charge inflation since July 2010. The Index also remained below its long-run average during the month.

Input Prices Index

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

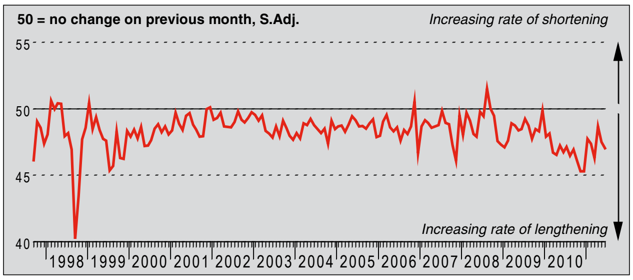


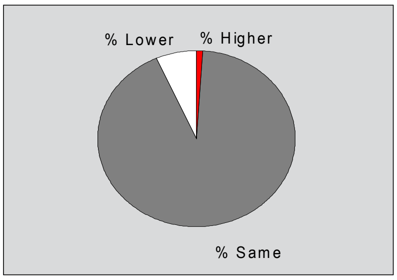


Input prices paid by Russian manufacturers continued to rise in June. The rate of input cost inflation remained below the survey's long-run trend for the second month running, but the previous four-month period of easing cost pressures was halted. This was signalled by the seasonally adjusted Input Prices Index rising for the first time since January. Sources of inflationary pressure included energy, metals and construction materials.

Suppliers' Delivery Times Index

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

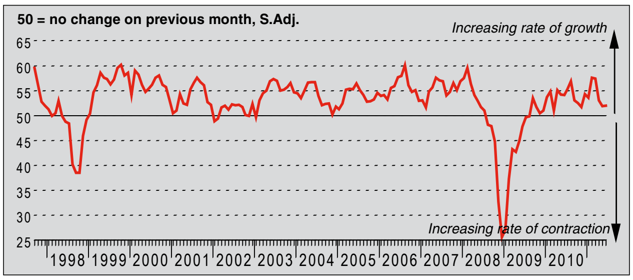


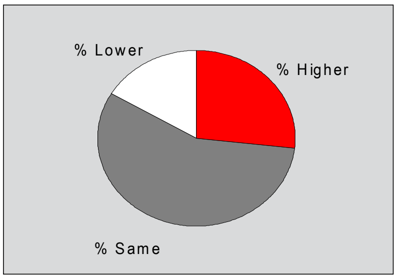


The seasonally adjusted Suppliers' Delivery Times Index remained below the no-change mark of 50.0 in June, signalling a further deterioration in the performance of vendors supplying Russian manufacturers. The Index fell on the month, signalling the greatest lengthening of delivery times since March. Some firms reported delays for imported items.

Quantity of Purchases Index

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

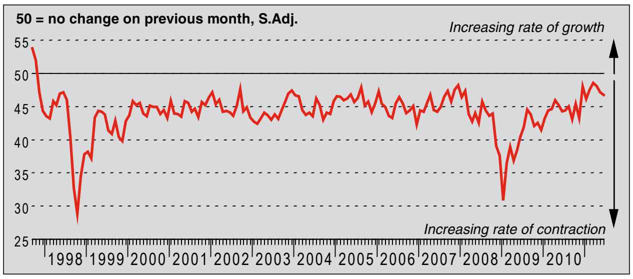


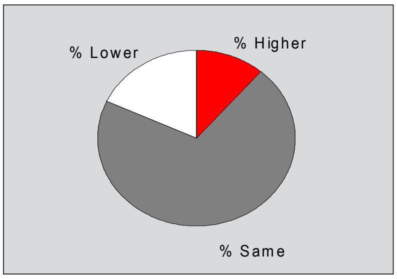


Purchasing activity in the Russian manufacturing sector rose for the twenty-second month running in June. Panellists attributed rising input volumes to higher output requirements. The seasonally adjusted Quantity of Purchases Index was unchanged from May, and indicated a moderate rate of expansion. The Index also remained lower than its long-run average of 53.0.

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 inventories of raw materials and other pre-production inputs in June. Moreover, the rate of contraction continued to gather pace, as signalled by a third successive monthly fall in the seasonally adjusted Stocks of Purchases Index. The latest figure pointed to the fastest rate of decline since January.

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.