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## HSBC Russia Manufacturing PMI®

Russian manufacturing business conditions deteriorate in July

### Key findings:

- PMI eases below 50.0, reflecting fall in new orders
- Production growth slows to marginal pace
- Output price inflation weakens to 12-month low

HSBC PMI® survey data compiled by Markit signalled an overall deterioration in business conditions in the Russian manufacturing sector. New orders declined for the second time in three months, while output growth lost further momentum and purchasing activity fell. On the other hand, employment rose slightly following June's job shedding, and inflationary pressures remained on a downward path.

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 fourth month running from March's 55-month high of 55.6, slipping below the no-change mark of 50.0 to 49.8. Though the latest figure indicated only a marginal overall deterioration in the business climate, it was the first sub-50.0 reading since December 2009. The fall in the Index reflected weaker contributions from the new orders, output and stocks of purchases components.

The volume of incoming new work at Russian manufacturers fell in July. Though marginal overall, the rate of decline was nevertheless the fastest since May 2009. Data signalled that new business over the past three months was broadly flat on average. New export orders also declined in July, the second

contraction in four months.

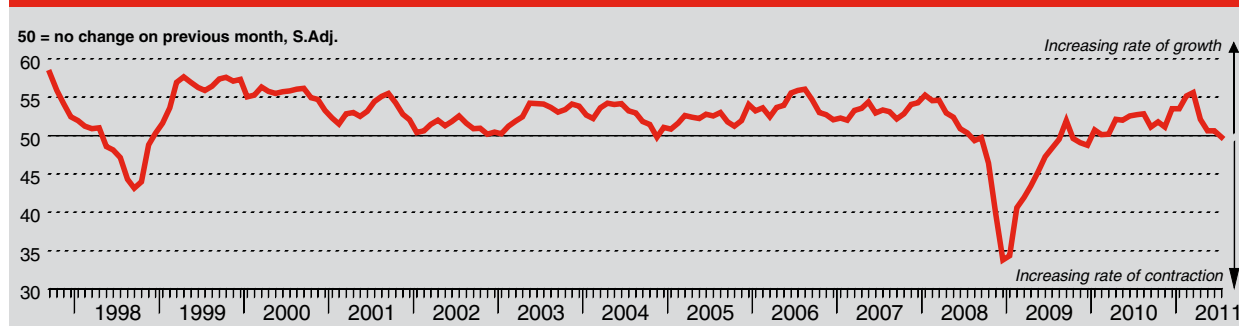
Overall growth of production was maintained in July, extending the current period of expansion to 24 months. The pace of growth slowed for the fourth time in five months, however, to a marginal pace that was the weakest in the current sequence. The volume of outstanding work declined for the twenty-second successive month, and at a solid rate (albeit the weakest since March).

Having fallen in June for the first time in nine months, manufacturing employment rose in July. The rate of job creation was only marginal, however, as around one-in-ten firms reported increasing headcounts since June.

In line with the trend in new business inflows, the volume of inputs purchased by Russian manufacturers declined in July. The rate of contraction was only marginal, but marked the first reduction since August 2009. Despite this weakening in purchasing activity, suppliers' delivery times continued to increase, partly linked to transport problems.

Inflationary pressures remained much weaker in July when compared with the start of the year. Input price inflation was at the second-lowest level in 19 months, while prices charged for Russian manufactured goods rose at the weakest rate since July 2010. Both survey indices were below their respective long-run averages in the latest period. Higher overall costs were linked to metal and oil prices.

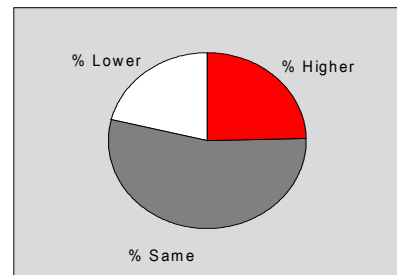
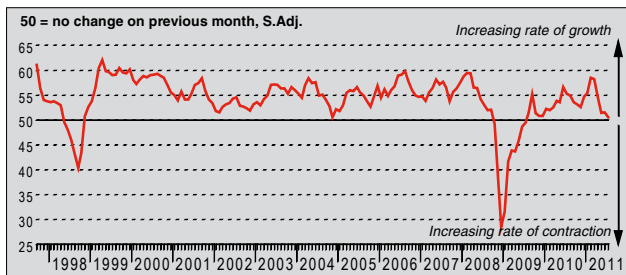
### HSBC Russia Purchasing Managers' Index™ (PMI®)



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 trademarks 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

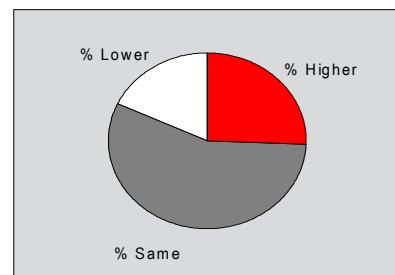
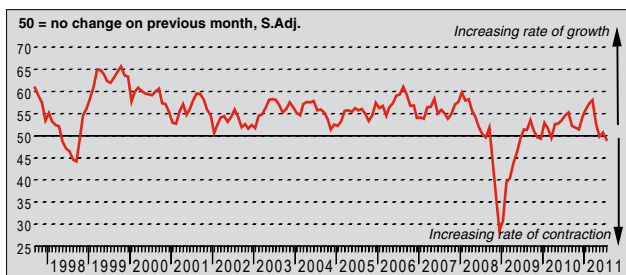
Q. Please compare your production/output this month with the situation one month ago.



Russian manufacturing production rose in July. The current period of expansion now stretches to two years. Where production grew, at around one-quarter of companies surveyed, improving demand was mostly cited. The seasonally adjusted Output Index moved lower, however, and the latest figure indicated only a marginal rate of growth that was the slowest in the current sequence. It was also well below the long-run survey average (54.3).

### New Orders Index

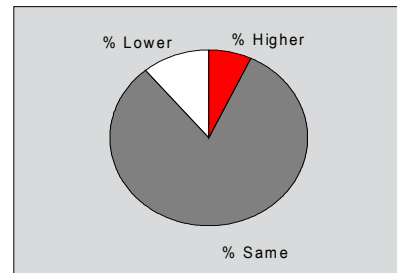
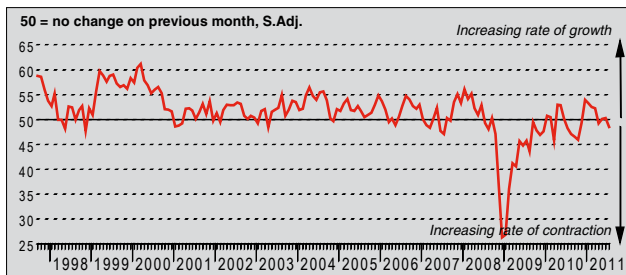
Q. Please compare the level of new orders received this month with the situation one month ago.



July data signalled a marginal decline in new orders received by Russian manufacturers. The seasonally adjusted New Orders Index was below the no-change mark of 50.0 for the second time in three months, and at its lowest since May 2009. Around 18% of firms reported falling new business intakes, linked to weakening market conditions. Prior to May, new orders had risen for 13 successive months.

### New Export Orders Index

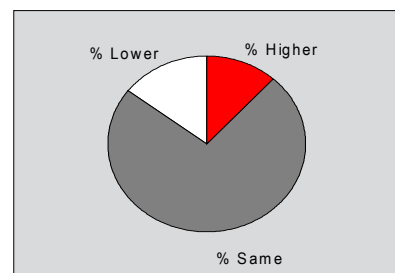
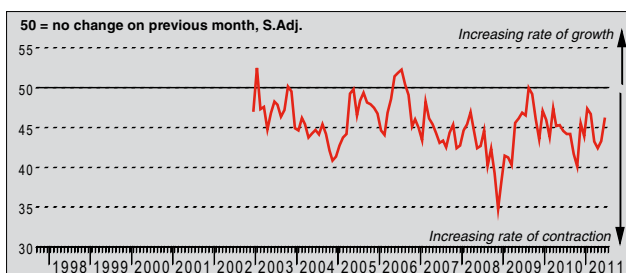
Q. Please compare the level of new export orders received this month with the situation of one month ago.



The volume of incoming new work from export markets declined for the second time in four months in July. Having signalled only fractional growth the previous two months, the seasonally adjusted New Export Orders Index indicated the fastest rate of contraction since last October in the latest period. Around 11% of firms reported declines, compared with 7% that received higher export contracts during the month.

### Backlogs of Work Index

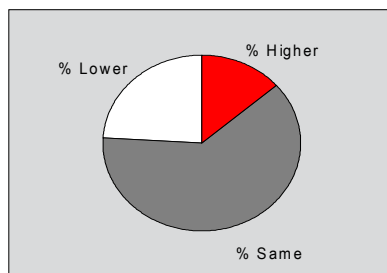
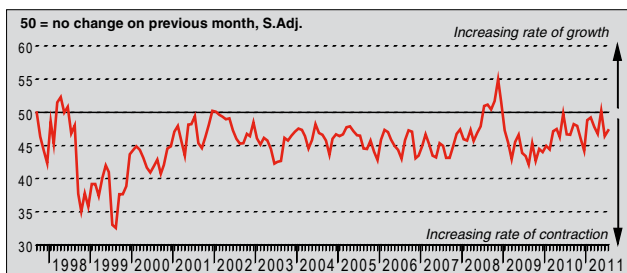
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



The seasonally adjusted Backlogs of Work Index remained below the no-change mark of 50.0 for the twenty-second successive month in July, signalling a further decline in backlogs at Russian manufacturers. That said, the rate of contraction eased during the month, to the weakest since March, and was slower than the long-run survey average. Some firms linked declining backlogs to a lack of incoming new work.

### Stocks of Finished Goods Index

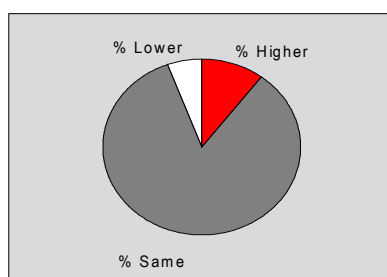
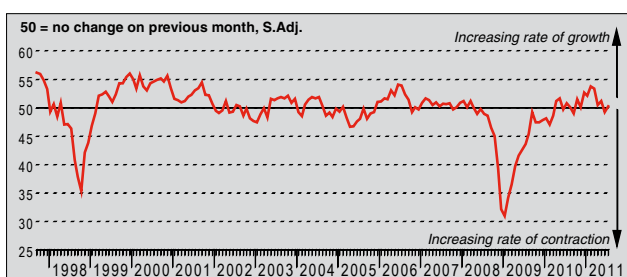
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Russian manufacturers continued to register declining inventories of finished goods in July. The seasonally adjusted Stocks of Finished Goods Index rose since June, signalling a slightly weaker rate of contraction. Of the 24% of survey respondents that reported lower warehouse levels, the main reason given was that sales shipments had risen.

### Employment Index

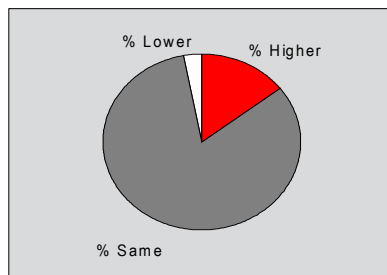
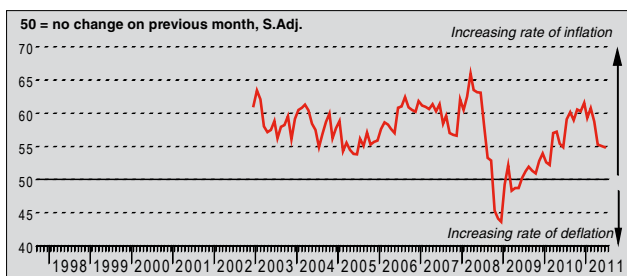
Q. Please compare the level of employment at your unit with the situation one month ago.



Jobs growth in Russia's manufacturing sector resumed in July. The seasonally adjusted Employment Index rose back above the no-change mark of 50.0, but signalled only a marginal rate of expansion. Prior to June, employment had risen for eight successive months. Around one-tenth firms reported raising headcounts during the latest period, linked to higher workloads.

### Output Prices Index

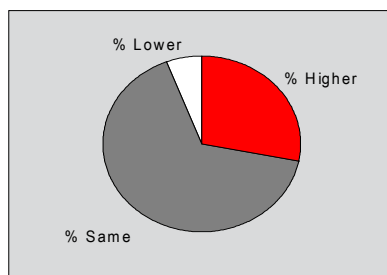
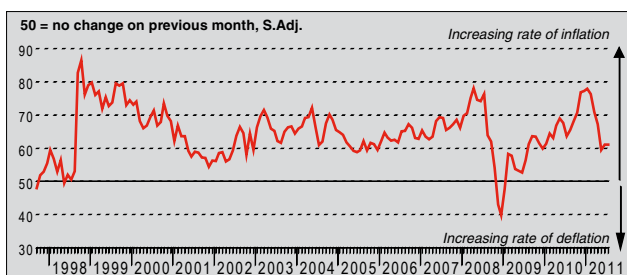
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Russian manufacturers raised their output prices in July. This extended the current sequence of charge inflation to 25 months. Higher selling prices, reported by 14.5% of the survey respondents, were mostly linked to rising input prices. That said, the rate of output price inflation eased further during the month, to the weakest since July 2010.

### Input Prices Index

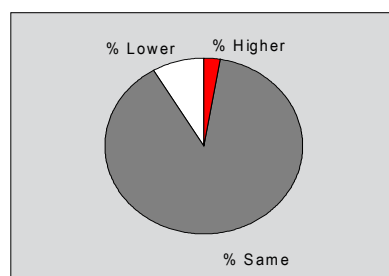
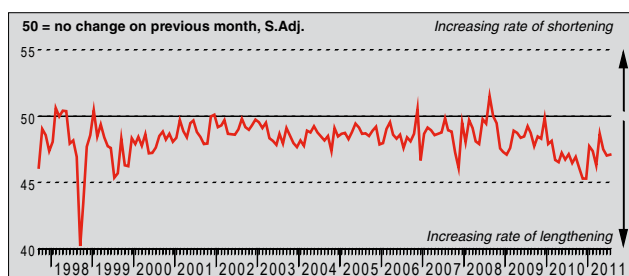
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Russian manufacturers continued to face higher input prices on average in July, partly attributed to metal and oil prices. Input price inflation has been registered every month for the past two-and-a-half years. That said, the seasonally adjusted Input Prices Index was little-changed from June, remaining below its long-run average of 64.8 and signalling a relatively weak increase in cost pressures.

## Suppliers' Delivery Times Index

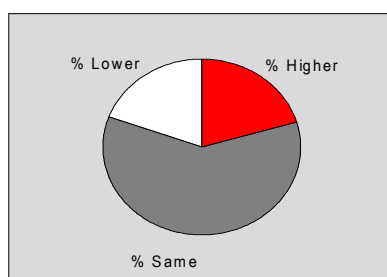
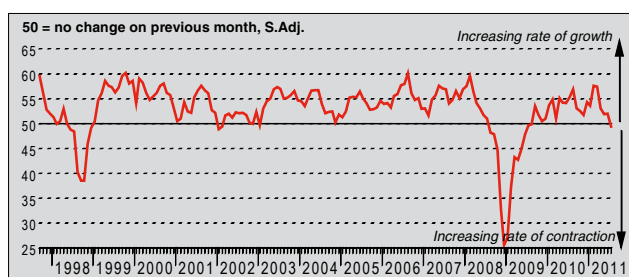
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Suppliers continued to take longer to deliver inputs to Russian manufacturers in July, on average. The seasonally adjusted Suppliers' Delivery Times Index remained below the neutral threshold of 50.0 and was unchanged from June, remaining below its long-run trend level of 48.3. Firms generally linked delays to logistical difficulties as opposed to demand pressures.

## Quantity of Purchases Index

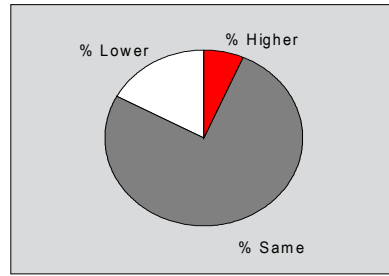
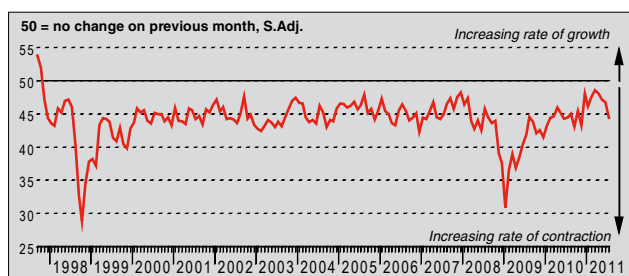
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



July data indicated a decline in the volume of inputs purchased by Russian manufacturers. That followed 22 successive months of growth. Anecdotal evidence linked lower purchasing to a variety of factors, including lower new orders, lean purchasing strategies, input shortages and sufficient stock levels. The overall rate of decline was only marginal, however.

## Stocks of Purchases Index

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



Pre-production inventories declined at a sharp rate in July. The seasonally adjusted Stocks of Purchases Index fell for the fourth consecutive month from March's 13-year high, and signalled the fastest rate of contraction since last November. Falling stock levels were either linked to shortages from suppliers, insufficient funds for purchasing new stock or adequate warehouse levels.

## 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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