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HSBC Russia Manufacturing PMI®

Russian manufacturing sector stagnates in August

Key findings:

- PMI at 49.9, reflecting further drop in new business
- Production growth maintains weak pace
- Input price inflation softens to 25-month low

HSBC PMI® survey data for August, compiled by Markit, signalled an ongoing stagnation in the Russian manufacturing sector in Q3. Output growth remained sluggish, as new orders declined for the third time in four months. This led to a fall in employment in the sector – the second in three months – although growth of purchasing activity resumed. Meanwhile, cost pressures at manufacturers were at their weakest for over two years.

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 indicative of no overall improvement in business operating conditions in August, remaining just below the no-change mark of 50.0 at 49.9. The sub-50.0 reading reflected the new orders, employment and stocks of purchases components. Prior to July, continuous improvement in business conditions at Russian manufacturers had been evident since January 2010.

Underpinning the overall weakness in the sector in August was a further decline in manufacturing new orders. Though marginal, the latest contraction was the third in the past four months. New export business also declined for the second month running in the latest period.

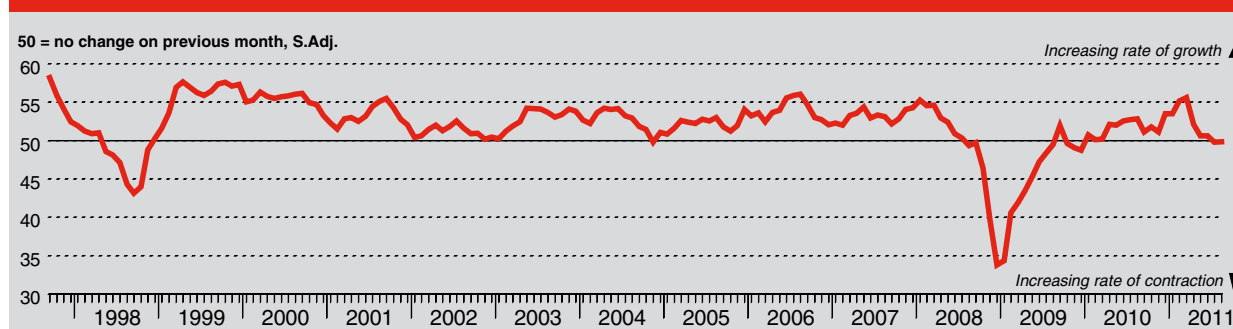
Production continued to rise in August, in spite of the sustained fall in new orders. Correspondingly, backlogs of work declined for the twenty-third month in succession. The rate of output growth was weak, however, and well below the long-run survey average.

Russian manufacturers, faced with declining new order volumes, cut workforces on average in August. The rate of job shedding was modest overall, but marked the second contraction in staff levels in the last three months.

August data signalled a further moderation in input price inflation. The rate of inflation has weakened continuously since February, hitting a 25-month low in the latest period, and remained below the historic trend shown over the survey history. Anecdotal evidence linked input price inflation to the weaker rouble exchange rate and higher prices for metals and fuel. Manufacturers raised their output prices for the twenty-sixth month in succession, but the rate of charge inflation eased to the weakest since November 2009.

The volume of inputs purchased rose in August, following July's decline, suggesting some firms are expecting growth of output requirements in the coming months. Suppliers' delivery times continued to lengthen, but at the weakest rate in three months. Meanwhile, stocks of both inputs and finished goods continued to decline.

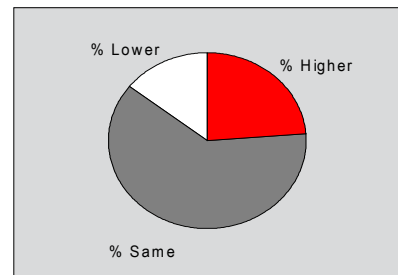
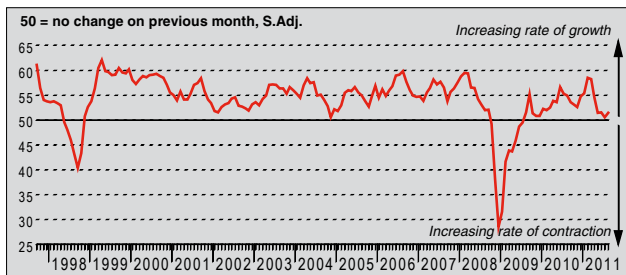
HSBC Russia Purchasing Managers' Index™ (PMI®)



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

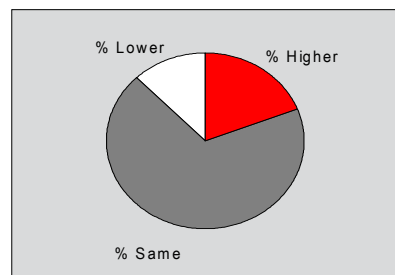
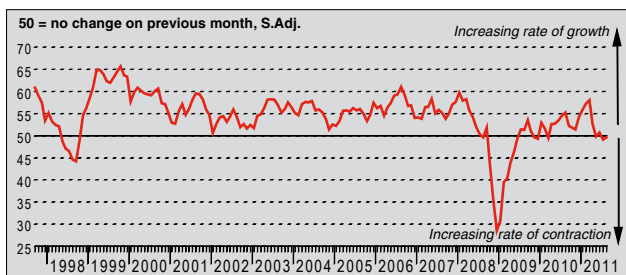
Q. Please compare your production/output this month with the situation one month ago.



Production growth in Russia's manufacturing economy was maintained in August. The current sequence of expansion now stretches to over two years. A rise in the seasonally adjusted Output Index signalled a faster rate of growth than in July, but the latest figure was still indicative of muted expansion. Where output rose, firms commented on new contracts. The Index remained well below its long-run average during the month.

New Orders Index

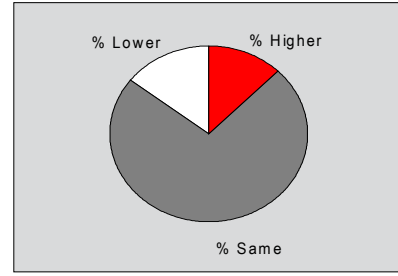
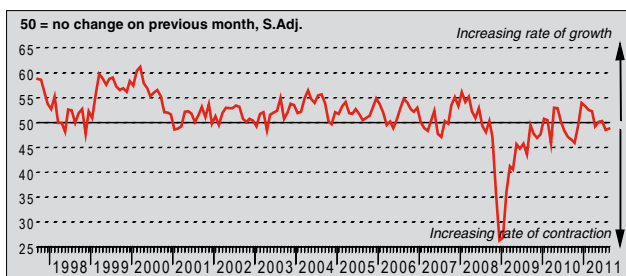
Q. Please compare the level of new orders received this month with the situation one month ago.



The volume of new orders received by Russian goods producers fell for the third time in the past four months in August. This was generally linked to weakening demand in the economy. The seasonally adjusted New Orders Index remained only slightly below the no-change mark of 50.0, however, signalling a marginal rate of contraction.

New Export Orders Index

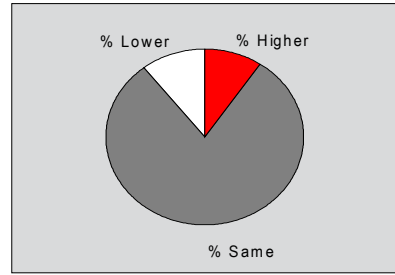
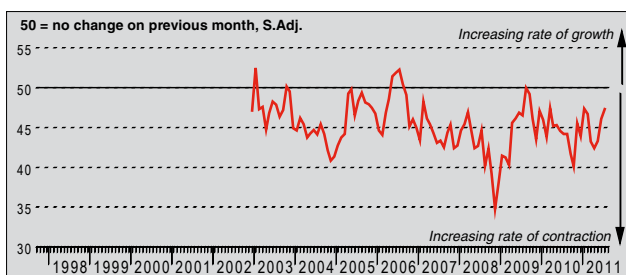
Q. Please compare the level of new export orders received this month with the situation of one month ago.



The seasonally adjusted New Export Orders Index remained below the no-change mark of 50.0 in August, indicating a second successive monthly drop in new export business in the Russian manufacturing sector. The rate of decline was fractionally weaker than in July. Some firms linked lower export work to strong competition from Chinese manufacturers.

Backlogs of Work Index

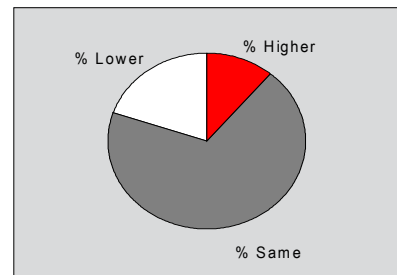
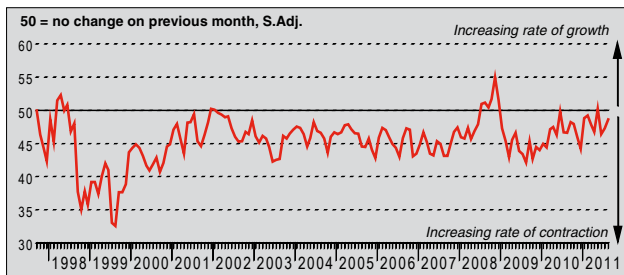
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Reflecting reduced intakes of new work, outstanding business in Russia's manufacturing sector declined further in August. This continued the trend observed since October 2009. That said, the rate of reduction in August was the weakest in six months. The seasonally adjusted Backlogs of Work Index remained above its long-run average of 45.4. Firms linked lower backlogs to deteriorating new business.

Stocks of Finished Goods Index

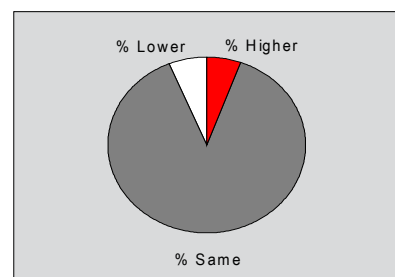
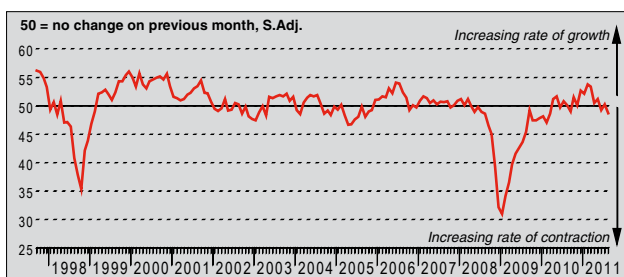
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



The seasonally adjusted Stocks of Finished Goods Index remained below the no-change mark of 50.0 for the third month in succession in August, signalling a further contraction in post-production inventories at Russian manufacturers. That said, the pace of decline was the weakest in this sequence. A number of survey respondents reported shipping out stocks to fulfill orders.

Employment Index

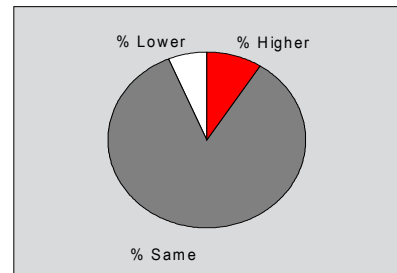
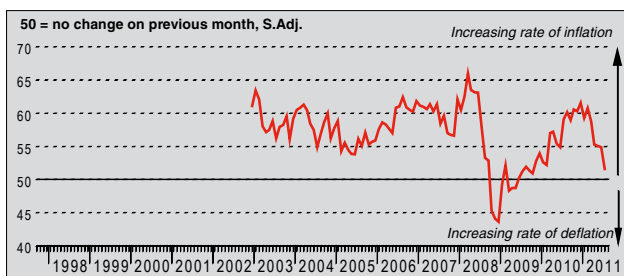
Q. Please compare the level of employment at your unit with the situation one month ago.



Manufacturing employment in Russia declined in August. The seasonally adjusted Employment Index was below neutrality for the second time in three months, and signalled the fastest rate of job shedding since March 2010. A number of firms reported that they had restructured workforces during the month, reflecting lower incoming new work. Prior to June, manufacturing employment had risen for eight successive months.

Output Prices Index

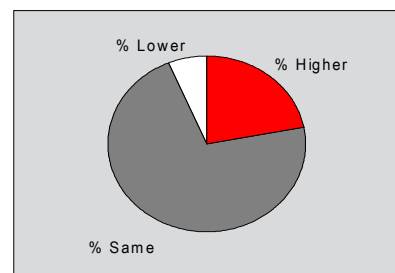
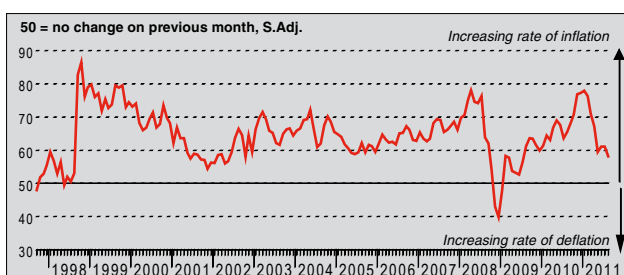
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Prices charged by Russian manufacturers for their final goods rose for the twenty-sixth month running in August. This was primarily attributed to rising input costs. However, having hit a two-and-a-half year high at the start of the year, the rate of output price inflation has slowed for the past five survey periods. The seasonally adjusted Output Prices Index signalled the weakest rate of inflation since November 2009.

Input Prices Index

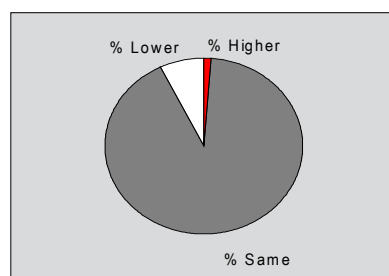
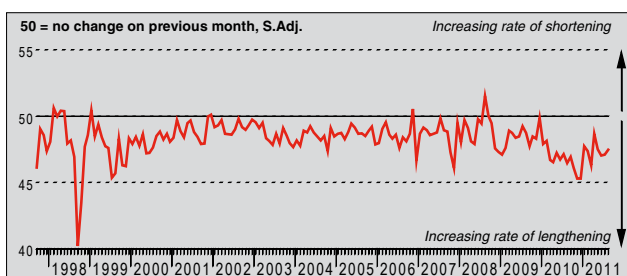
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Average input prices paid by Russian goods producers rose further in August, extending the current run of input cost inflation to 31 months. Firms linked higher input prices to the weaker rouble exchange rate, and cited higher costs for metals and fuel in particular. That said, the rate of input price inflation across the sector slowed for the sixth time in seven months, to the lowest since July 2009. The seasonally adjusted Input Prices Index remained below its long-run average (64.7) for the fourth month in a row.

Suppliers' Delivery Times Index

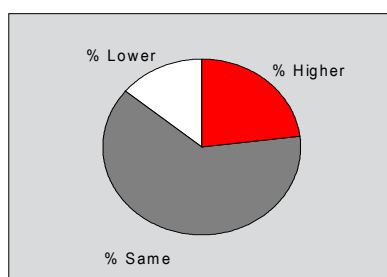
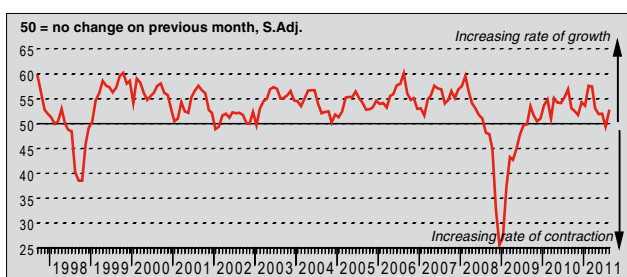
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



The performance of vendors supplying Russian manufacturers continued to deteriorate in August. The average time taken to deliver inputs ordered by goods producers lengthened further, albeit to a lesser extent than in the previous two months. Survey data have signalled longer delivery times every month since October 2008. There were reports of input shortages on the market, and delays with rail deliveries.

Quantity of Purchases Index

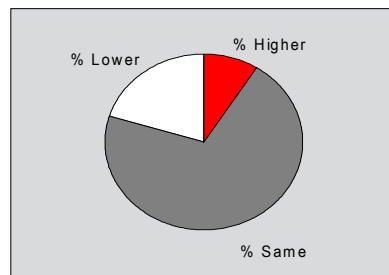
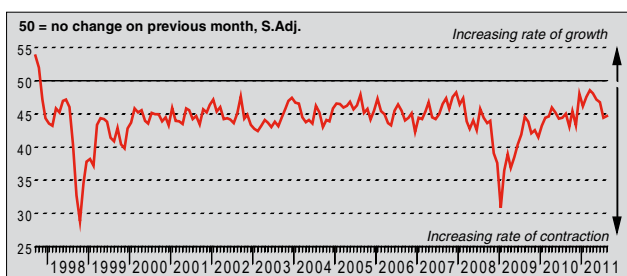
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Growth of purchasing activity resumed in August, following July's marginal decline. Exactly 23% of survey respondents reported larger input volumes compared with July, attributing the increases mainly to higher production. Moreover, the seasonally adjusted Quantity of Purchases Index rose to a four-month high. The Index was still below its long-run average of 53.0, however.

Stocks of Purchases Index

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



Stocks of inputs held by Russian manufacturers continued to decline sharply in August. The seasonally adjusted Stocks of Purchases Index was only slightly up from July's eight-month low, signalling a strong rate of contraction. Just over one-in-five survey respondents reported lower warehouse stocks of raw materials and other inputs, partly linked to shortages.

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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