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HSBC Russia Manufacturing PMI®

Russian manufacturing sector remains stagnant in September

Key findings:

- PMI at 50.0, with virtually no improvement registered throughout Q3
- New order volumes little-changed since August
- Output price inflation slows for sixth month in a row

HSBC PMI® survey data for September, compiled by Markit, signalled a further absence of growth in the Russian manufacturing sector in Q3. The sector has largely stalled throughout the third quarter, a marked turnaround from the sharp growth seen in Q1. Output growth was marginal in the latest period, while new orders were broadly unchanged overall as new export business declined further. The latest survey suggested that inflationary pressures continued to subside, with both input and output prices rising at slower rates during the month.

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 September, equalling the no-change mark of 50.0 following August's 49.9. The key new orders, output and employment components were all close to neutrality during the latest period. On a quarterly basis, the average figure for Q3 of 49.9 was the lowest since Q4 2009, and contrasted with the post-crisis high of 54.8 registered in Q1 2011.

September's forward-looking new orders data failed to show growth. While the figures have yet to signal significant falls in new contracts at manufacturers, outright growth has only been

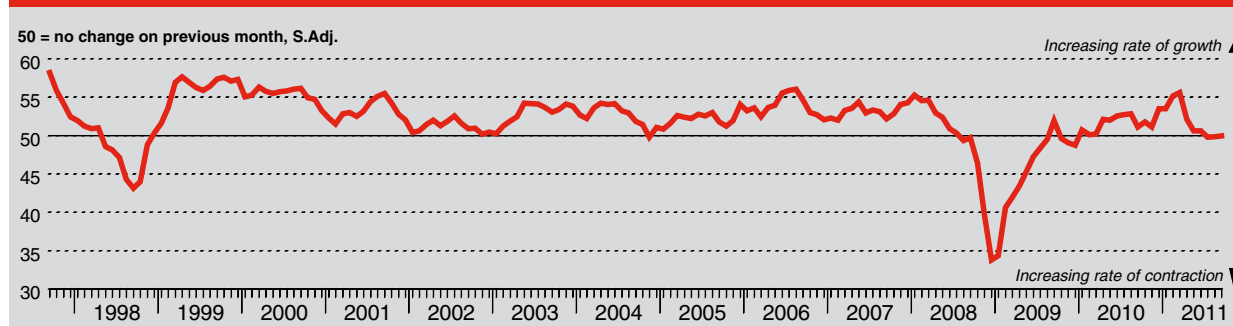
registered once in the past five months. A key factor in the recent weakness in order books has been external demand – new export business declined for the third month running in September, despite the weakening of the rouble.

A lack of incoming new work led to a further slowdown in output growth in September. The rate of expansion was the weakest in the current sequence, stretching back to August 2009. The completion of outstanding contracts continued to support overall output growth, but the rate of decline in backlogs slowed in September to a modest pace.

Net job losses were reported in the Russian manufacturing sector in September, reflecting the current malaise in workloads. Falling employment has been registered three times in the past four months, though the latest reduction was only marginal. Manufacturers continued to raise their purchases of inputs in September, albeit at a moderate rate. Reflecting this, suppliers' delivery times continued to lengthen.

Price pressures eased further in September. Input prices rose at the slowest pace since July 2009, in contrast to the marked rates seen at the turn of the year. The latest slowdown in input cost inflation transpired despite the weakening of the rouble, which raised the cost of imported raw materials. Output price inflation also eased during the month, to the weakest since November 2009. The rate of charge inflation has slowed continuously since March.

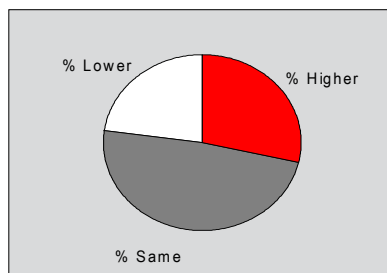
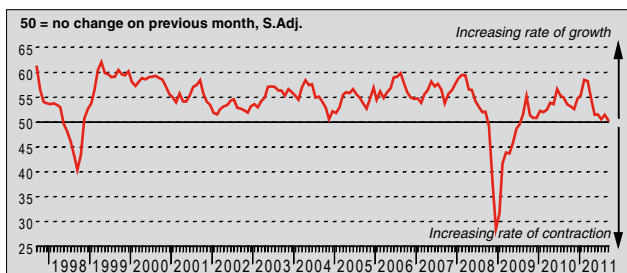
HSBC Russia Purchasing Managers' Index™ (PMI®)



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

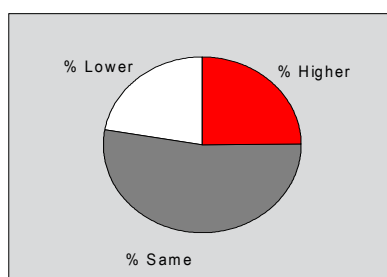
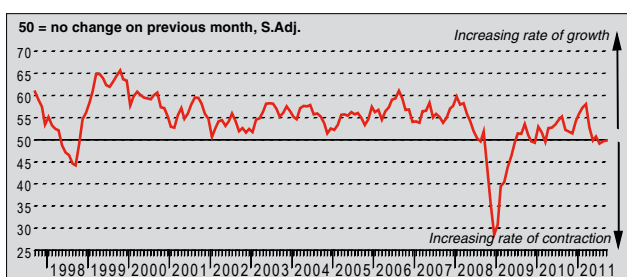
Q. Please compare your production/output this month with the situation one month ago.



Russian manufacturing production rose only marginally in September, continuing the trend seen throughout the third quarter. The seasonally adjusted Output Index was above the no-change mark of 50.0 for the twenty-sixth successive month, but at its lowest level in that sequence. Anecdotal evidence suggested that firms whose output had not risen since August largely blamed poor demand or shortages of inputs.

New Orders Index

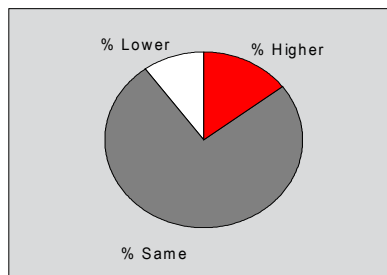
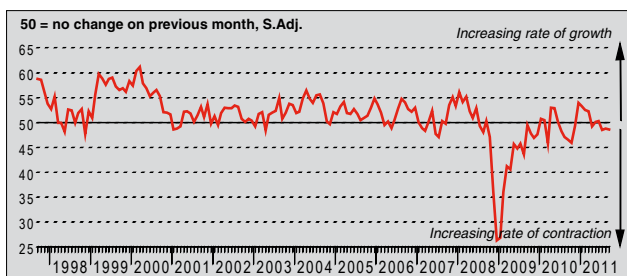
Q. Please compare the level of new orders received this month with the situation one month ago.



September data indicated an ongoing stagnation in new order inflows to the Russian manufacturing sector. The seasonally adjusted New Orders Index rose fractionally for the second month running, but failed to break the 50.0 no-change mark. The Index has signalled marginal declines in new work four times in the past five months, in contrast to the strong gains seen in the first quarter. Firms generally commented on weakening demand.

New Export Orders Index

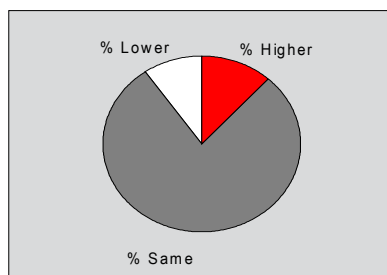
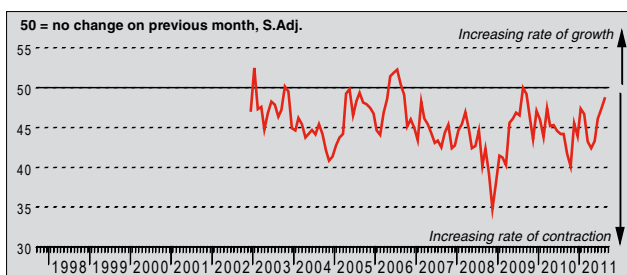
Q. Please compare the level of new export orders received this month with the situation of one month ago.



September marked a third successive month of declining new export order volumes at Russian manufacturers. The seasonally adjusted New Export Orders Index was little-changed from August, signalling a modest rate of contraction. The Index was also below its long-run average of 51.5.

Backlogs of Work Index

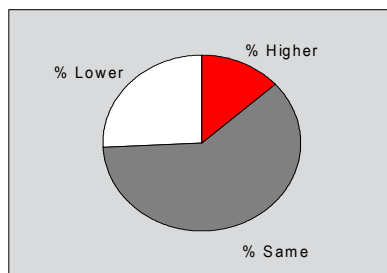
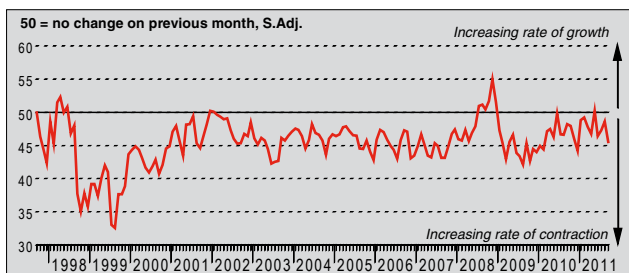
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Backlogs of work at Russian manufacturers fell in September, indicating a general lack of pressure on operating capacity as inflows of new work stalled. Outstanding business has declined every month since October 2009. That said, the seasonally adjusted Backlogs of Work Index rose for the fourth successive month, to a level indicative of only a modest rate of contraction.

Stocks of Finished Goods Index

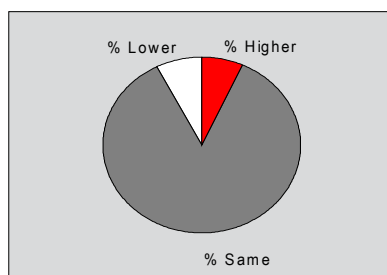
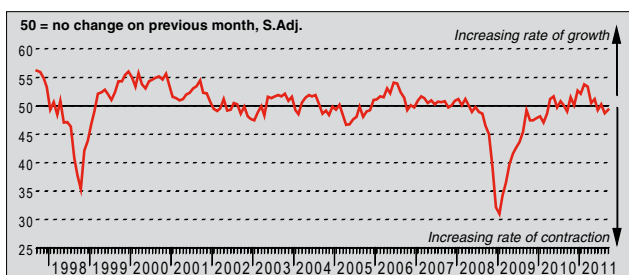
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Manufacturers' inventories of final products declined for the fourth month running in September. The rate of contraction accelerated since the previous month, to the fastest since December 2010. Just over one-quarter of survey respondents reported lowering their warehouse stocks of completed goods. A number of firms reported that they had allowed shipments of orders to exceed output, reflecting the recent deterioration in market conditions.

Employment Index

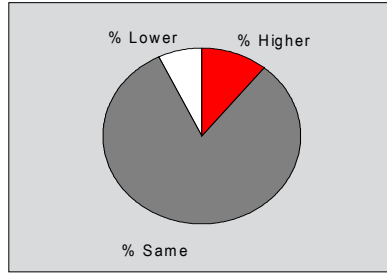
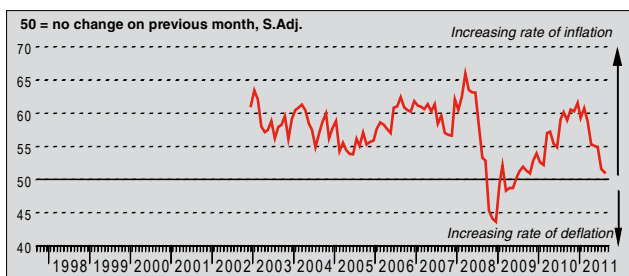
Q. Please compare the level of employment at your unit with the situation one month ago.



Russian goods producers cut workforces on average in September. The seasonally adjusted Employment Index was slightly below the no-change mark of 50.0, signalling a marginal rate of job shedding in the manufacturing sector. Declining employment has been registered three times in the past four months. Firms linked job losses either to internal restructuring or lower production requirements.

Output Prices Index

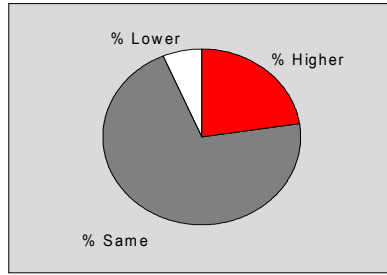
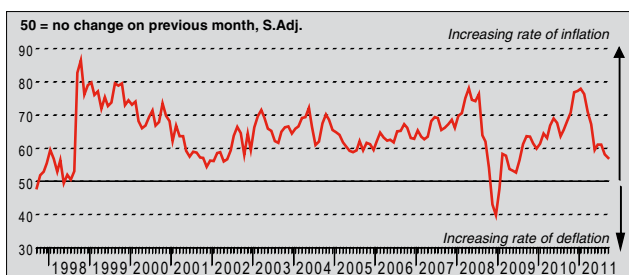
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



The rate at which Russian manufacturers increased their output prices continued to fall in September. The seasonally adjusted Output Prices Index moved lower for the sixth successive month, and the latest figure indicated the weakest rate of charge inflation since November 2009. While some firms reported passing on higher costs to customers, others reported that key inputs had fallen in price, leading them to cut charges. Strong competition was a key factor restricting firms' pricing power overall.

Input Prices Index

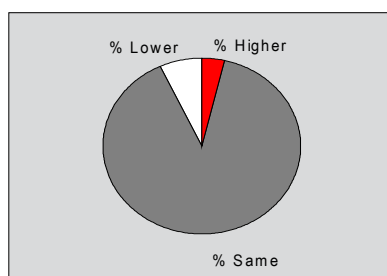
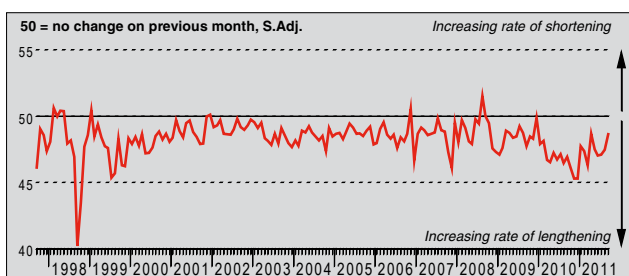
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Average input prices in the Russian manufacturing sector continued to rise in September. While some firms linked price hikes to supply shortages, a key factor reported by panellists was the weaker rouble exchange rate, which raised the price of imported goods. That said, the seasonally adjusted Input Prices Index fell for the third month running, signalling a general easing of inflationary pressures. The latest figure was below the long-run survey average (64.7) and the lowest in 26 months.

Suppliers' Delivery Times Index

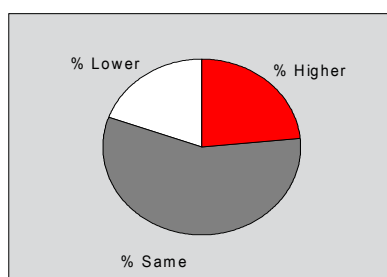
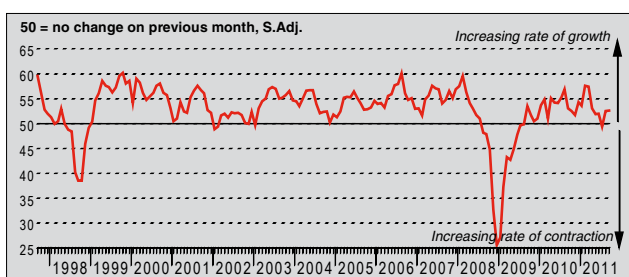
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



The performance of vendors supplying Russian manufacturers continued to deteriorate in September. Suppliers' delivery times lengthened on average for the thirty-sixth consecutive month, albeit to the weakest extent since April. Some firms reported customs delays as a reason for longer delivery times.

Quantity of Purchases Index

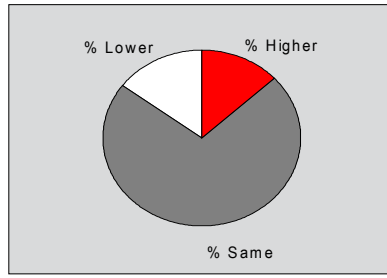
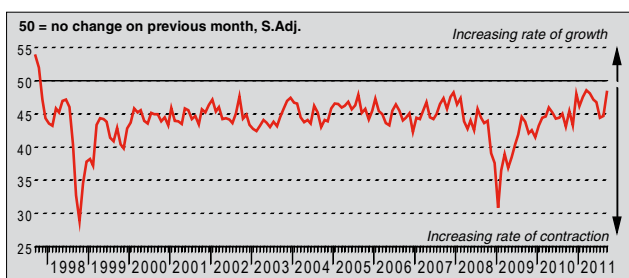
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Growth of purchasing volumes was maintained for the second month running in September, following July's marginal decline. The rate of growth was unchanged at a moderate pace, however, and the seasonally adjusted Quantity of Purchases Index remained below its long-run average. Prior to July, input volumes had risen for 22 successive months. Where purchasing activity rose, this was linked to higher production.

Stocks of Purchases Index

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



The rate at which Russian manufacturers' pre-production inventories declined slowed sharply in September. The seasonally adjusted Stocks of Purchases Index rose sharply, remaining below the no-change mark of 50.0 but registering the fourth-highest level in the series history. Around 15% of firms reported cutting inventories, compared with 13% that raised them.

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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