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## HSBC Russia Manufacturing PMI®

### Russian manufacturing new orders rise in October

#### Key findings:

- First increase in new work since June helps generate overall improvement in business conditions...
- ...but output growth remains marginal
- Manufacturing employment falls for third month running

HSBC PMI® survey data for October, compiled by Markit, signalled a mild improvement in the manufacturing business climate at the start of Q4. This largely reflected a resumption in new business growth, albeit at a moderate pace. Output growth was maintained, but at a marginal rate, while goods producers continued to shed workers on average. Input price inflation accelerated, linked to exchange rate pressures, but remained weak in the context of the 14-year survey history.

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 edged up from 50.0 to 50.4 in October. This signalled the first overall improvement in business conditions in the manufacturing sector since June. The positive survey result largely reflected a rise in new orders following marginal declines throughout the third quarter. Output growth remained weak, and the employment and stocks of purchases components continued to make negative contributions to the headline figure. The PMI remained well below its long-run average of 52.1 in the latest period.

The rate of growth in new business received by Russian manufacturers was muted, and well below the survey's long-run trend. This partly reflected external weakness – new orders from export markets rose

only marginally – as well as lacklustre domestic demand.

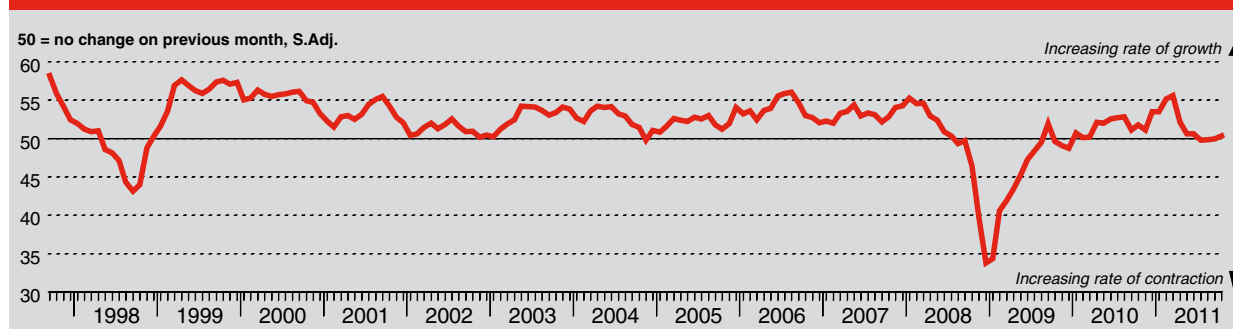
Manufacturing production in Russia rose for the twenty-seventh month running in October, supported by the resumption in new order growth. In line with the trend shown throughout the third quarter, however, the rate of expansion in output was weak.

The clearance of existing workloads continued to support output growth in October. Backlogs of work declined for the twenty-fifth successive month, and at the fastest rate since June. This apparent lack of pressure on capacity influenced firms' hiring decisions, as employment across the sector declined for the third month running. Moreover, the rate of workforce reduction was the fastest since February 2010.

Purchasing activity rose at the strongest rate in seven months in October, hinting at stronger output growth in the months ahead. Consequently, suppliers' delivery times lengthened to the greatest extent since March.

Cost pressures faced by Russian manufacturers strengthened in October. The rate of input price inflation accelerated to its fastest since July, partly linked by panellists to the effect of rouble weakness on import prices. That said, input cost inflation remained below the historic average for the survey, reflecting relatively muted demand for manufacturing inputs in recent months. Meanwhile, prices charged for Russian manufactured goods rose at the slowest rate in 27 months during October, reflecting the recent flat trend in demand.

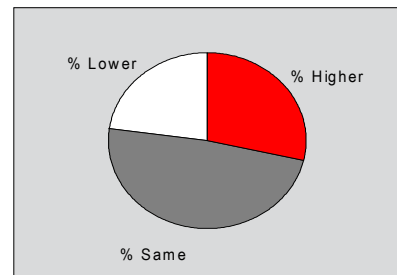
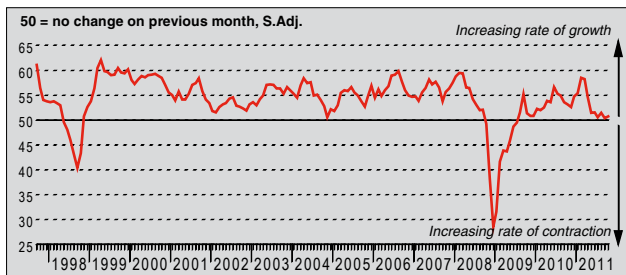
#### HSBC Russia Purchasing Managers' Index™ (PMI®)



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

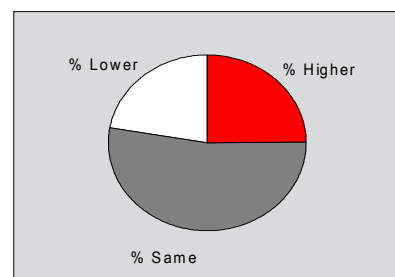
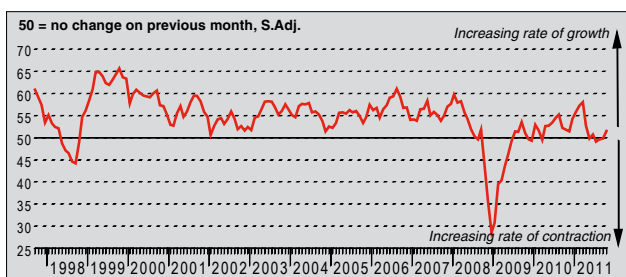
Q. Please compare your production/output this month with the situation one month ago.



The seasonally adjusted Output Index remained above the no-change mark of 50.0 in October, indicating a rise in manufacturing production in Russia. A number of survey respondents linked higher output to improving demand. The current sequence of expansion now stretches to 27 months. That said, the rate of growth remained marginal in the latest period, in line with the trend shown over the third quarter.

### New Orders Index

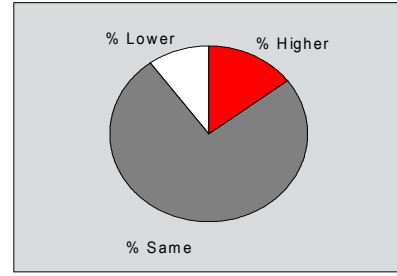
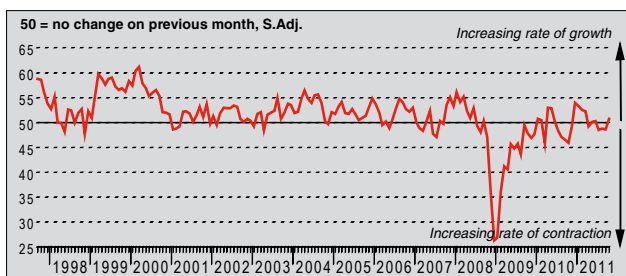
Q. Please compare the level of new orders received this month with the situation one month ago.



The volume of new orders received by Russian manufacturers rose for the first time in four months in October. Some firms reported winning new domestic contracts during the latest period. The rate of expansion was stronger than the marginal gain seen in June, but nevertheless weak in the context of historic survey data.

### New Export Orders Index

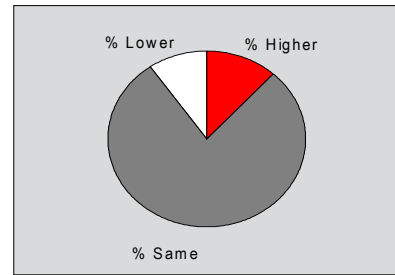
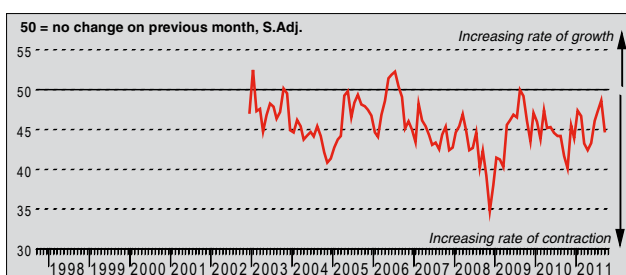
Q. Please compare the level of new export orders received this month with the situation of one month ago.



The seasonally adjusted New Export Orders Index rose above the no-change mark of 50.0 in October, having previously signalled declining new export business throughout the third quarter. That said, the rate of growth indicated by the latest figure was only marginal. New export contracts have risen only three times in the past seven months. The seasonally adjusted New Export Orders Index was below its long-run average of 51.5 during the latest period.

### Backlogs of Work Index

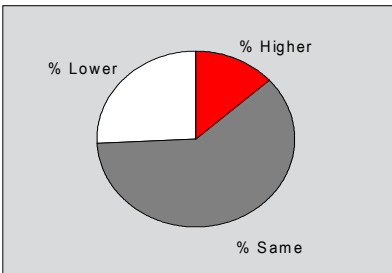
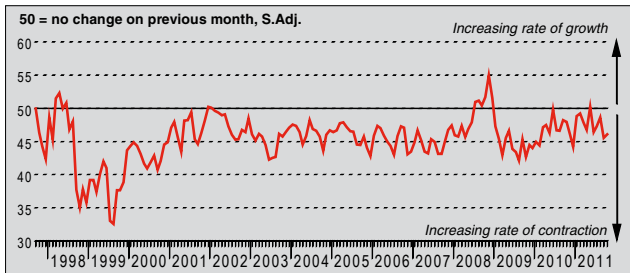
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Russian manufacturers' backlogs fell at a sharp rate in October. The seasonally adjusted Backlogs of Work Index signalled the fastest rate of contraction since June, and was below its long-run average of 45.4. Outstanding business in the sector has fallen every month since October 2009. Anecdotal evidence mainly linked declining backlogs to excess capacity.

**Stocks of Finished Goods Index**

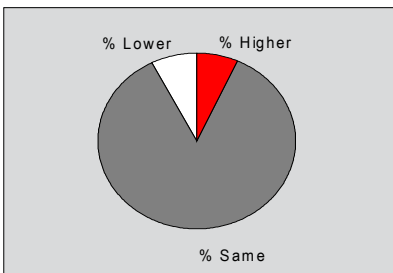
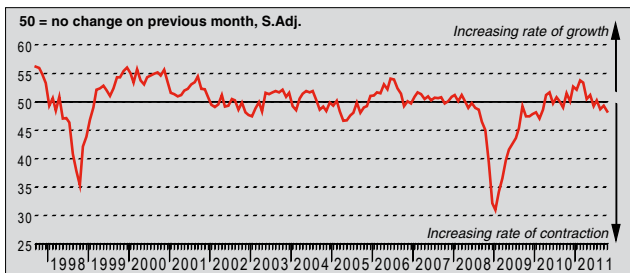
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Post-production inventories in the Russian manufacturing sector declined for the fifth successive month in October. The seasonally adjusted Stocks of Finished Goods Index rose slightly since September, but still signalled the second-fastest rate of contraction in 2011 so far. Falling stocks of final goods were linked to shipments of orders to clients and shortages of inputs.

**Employment Index**

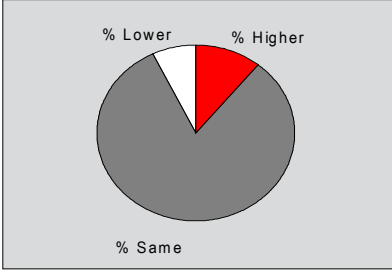
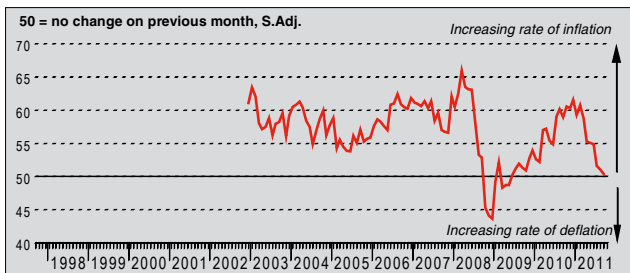
Q. Please compare the level of employment at your unit with the situation one month ago.



October data marked a third successive month of falling employment in Russia's manufacturing sector. Moreover, the rate of job shedding accelerated since the previous month, to the fastest since February 2010. Those firms that reported lower headcounts during the month (9%) mainly linked the declines to lower output requirements.

**Output Prices Index**

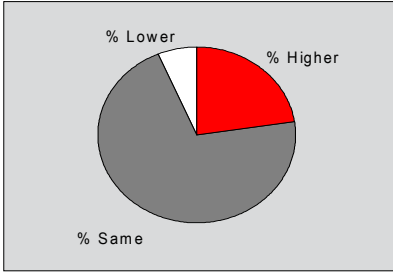
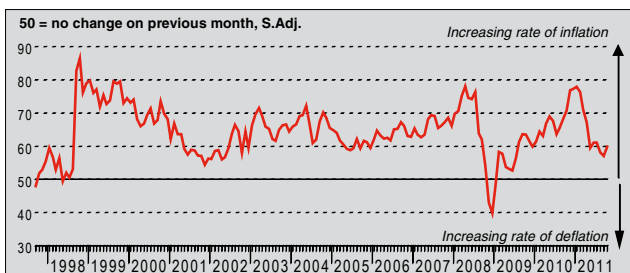
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Average prices charged by Russian manufacturers rose for the twenty-eighth month running in October. The rate of inflation slowed for the seventh consecutive survey period to a marginal pace, however, as the seasonally adjusted Output Prices Index fell to its lowest level since July 2009.

**Input Prices Index**

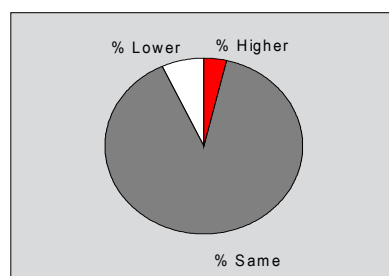
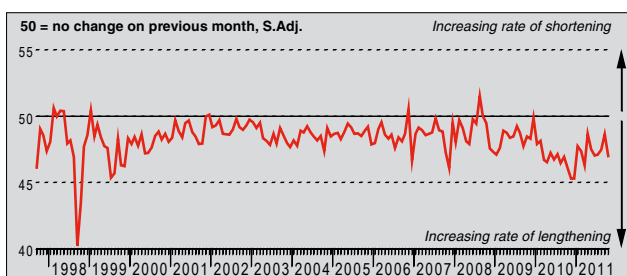
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Russian manufacturers' input prices increased at a faster rate in October. Anecdotal evidence generally linked inflationary pressure to raw material prices, exacerbated by the depreciation of the rouble against the dollar and euro. The seasonally adjusted Input Prices Index rose for the first time since June, to its highest level in three months. That said, it remained below the long-run average for the survey (64.6).

## Suppliers' Delivery Times Index

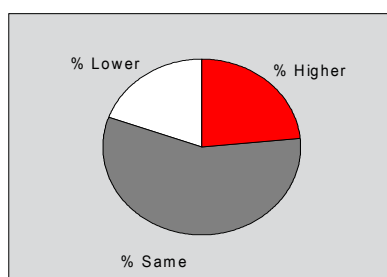
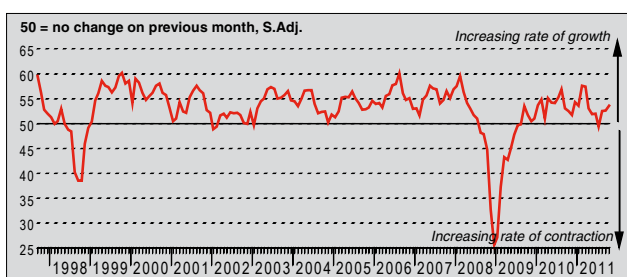
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Continuing the trend observed since October 2008, vendor performance in the Russian manufacturing sector continued to deteriorate at the start of the final quarter. Moreover, the average time taken to deliver inputs to goods producers lengthened to the greatest extent since March. Reasons provided by survey respondents for delays included transport difficulties and input shortages.

## Quantity of Purchases Index

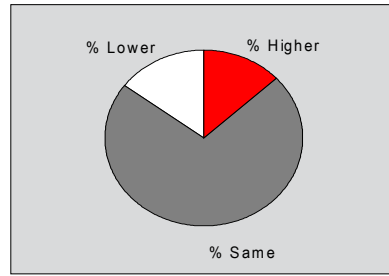
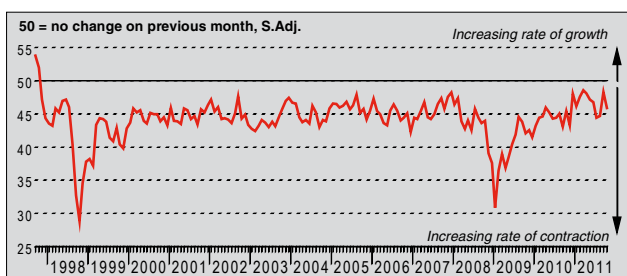
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Having been unchanged in September, the seasonally adjusted Quantity of Purchases Index rose in the latest survey period, to signal a faster rate of expansion in purchasing activity by Russian manufacturers. With the exception of July, purchases have risen every month since September 2009. The rate of growth in October was the strongest since March, and also slightly faster than the survey's long-run average.

## Stocks of Purchases Index

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



Russian manufacturers continued to run down input stocks, on average, in October. The rate of contraction accelerated since September, and was slightly sharper than the average for 2011 so far. Anecdotal evidence mainly linked lower input inventories to rising output or shortages of raw materials.

## 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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