HSBC Purchasing Managers' Index™ Press Release

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compiled by markit

HSBC Russia Manufacturing PMI®

Russian manufacturing expansion remains modest as new order growth slows

Key points

- Weakest rise in new orders since last August
- Output growth little-changed from March's modest pace
- Output prices fall for second time in three months

Summary

Business conditions facing Russian manufacturers improved only marginally at the start of the second quarter, HSBC PMI® data compiled by Markit showed. New order growth lost momentum for the third month in succession, partly reflecting a further drop in new export business. Production rose at a modest pace that was broadly similar to that shown in the previous month, while firms shed staff for the sixth consecutive survey.

The survey's headline figure is the HSBC Purchasing Managers' Index™ (PMI). Readings above 50.0 indicate an overall improvement in business conditions, below 50.0 an overall deterioration. The PMI was above neutrality for the eighteenth time in the past 19 months in April. It fell for the second month running, however, from 50.8 to a four-month low of 50.6, indicating that the pace of improvement remained marginal.

The volume of new orders rose for the nineteenth month in a row in April. The pace of expansion slowed for the third consecutive month, however, to the weakest for eight months. Export conditions remained challenging despite the weaker ruble, as new export orders fell for the third month running.

Russian goods production rose in April, continuing the trend shown since August 2009. The rate of expansion was little-changed from March's weak pace, and slower than the average over the current growth sequence. Purchasing activity also rose at a modest pace in April.

Survey data indicated an ongoing round of job cutting in the Russian manufacturing sector. The current sequence of falling employment now stretches to six months.

The average price paid by manufacturers for their inputs rose in April, reflecting higher costs for energy, supplier charges and the effect of the weaker ruble on import prices. The rate of inflation was the strongest in four months, but remained weak in the context of historic survey data.

Manufacturers cut prices for their final goods for the second time in three months in April. Though marginal overall, the rate of reduction was the fastest registered since June 2009. Firms linked discounting to the weakness of current market conditions.

Comment

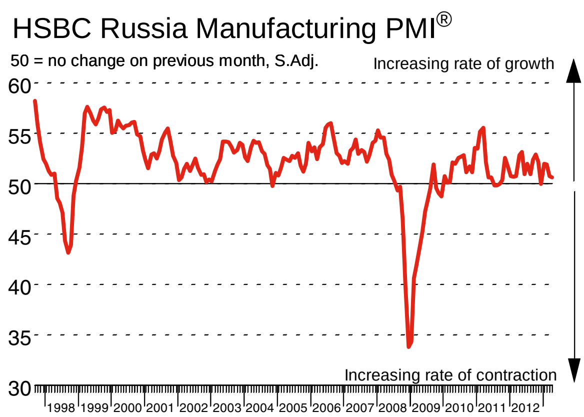
Commenting on the Russia Manufacturing PMI® survey, Alexander Morozov, Chief Economist (Russia and CIS) at HSBC, said:

"Growth momentum in the Russian manufacturing has remained below the post-crisis trend, the April HSBC Russia Manufacturing PMI survey revealed. The previously observed difference in growth dynamics between the consumption goods sector and the investment goods sector has become sharper. The former sector sustained a broad based solid performance, seen in all key PMI indicators, such as output, new orders, new export orders, employment, output prices, and quantity of purchases. The latter sector signalled the pronounced broad-based contraction of business activity. Importantly, the negative impact of the investment goods sector on the overall performance of the Russian manufacturing has increased in relative terms, making the sector the driver of manufacturing as a whole. Indeed, the investment goods sector's weakness explains a deeper reduction in staff level and new export orders in manufacturing in April.

"In this respect, the April PMI results are nicely aligned with the official economic activity data that point to sub-zero fixed investment growth and strong expansion of private consumption over recent months. In our opinion, this suggests that the Russian manufacturing and industry will most likely continue growing very slowly, with downside risks to growth prevailing without a recovery in external and internal demand for investment goods.

"The observed 'two-speed' growth dynamics in the Russian manufacturing complicates the monetary policy decisions, we think. In essence, only the investment goods sector may require a stimulus. But investment demand can hardly be pushed by monetary policy that sets short-term rates in the economy. Therefore, structural policies that improve business and investors' confidence and willingness to invest should come to the frontline."

Historical Overview



Sources: HSBC, Markit.

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Notes to Editors:

The HSBC Russia Manufacturing PMI 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. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact economics@markit.com.

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About PMIs:

Purchasing Managers' Index™ (PMI®) surveys are now available for 32 countries and also for key regions including the Eurozone. They are the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to www.markit.com/economics