HSBC Russia Manufacturing PMI®

Manufacturing business climate remains muted in February

Key findings:

- PMI little-changed at 50.7
- Lacklustre growth of output, new orders and jobs
- Input price inflation at 32-month low

The Russian manufacturing sector failed to regain momentum mid-way through the first quarter of 2012, according to the latest HSBC *PMI*® data compiled by Markit. Weak growth rates were registered for output, employment and purchases, while new export orders continued to fall. On the price front, input cost inflation slowed sharply to one of the lowest levels in the survey's fourteen-and-a-half year history, while manufacturers held their own prices broadly constant.

The survey's headline figure is the HSBC *Purchasing Managers' Index*™ (PMI) – a composite indicator designed to give a single-figure snapshot of operating conditions in the manufacturing economy. Readings above 50.0 indicate an overall improvement in business conditions, below 50.0 an overall deterioration.

The headline PMI signalled only a slight overall improvement in business conditions in February, posting 50.7, little-changed from January's 50.8. It was the fifth-successive reading above neutrality, but the PMI remained below its long-run average of 52.1. Four out of five components of the headline index exerted positive contributions, but these were generally weak.

New orders received by Russian goods producers rose for the fifth month running in February. The pace of expansion improved slightly from January, but remained weak compared with the long-run survey average. Also, new contracts from export markets fell for the third month running.

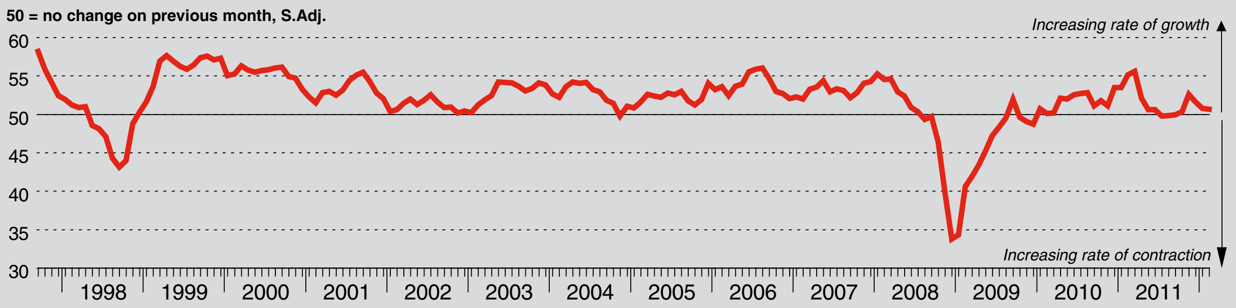
Higher new business and cuts to backlogs sustained output expansion in February. The current run of production growth now stretches to 31 months, but the rate of growth remained marginal in the latest period. The volume of outstanding business declined for the twenty-ninth consecutive month.

Purchases rose at a fractional pace in February, and input volumes overall have been broadly flat on average in 2012 so far. Weak demand for raw materials and other inputs was partly reflected in a sharp easing in the rate of input cost inflation in the latest period. The rate at which average input prices increased was the weakest since June 2009, and one of the slowest in the survey history. Only 18% of firms reported higher input costs during the month.

Output prices charged by Russian goods producers were flat in February. This marked the first period when tariffs had not risen since June 2009. About 84% of firms reported holding output prices constant since January, citing competitive pressures.

Russian manufacturers expanded workforces on average in February, taking the current run of job creation to four months. That said, the pace of growth was the slowest in this sequence and only marginal, underlining the fragile nature of the current phase of demand growth in the sector.

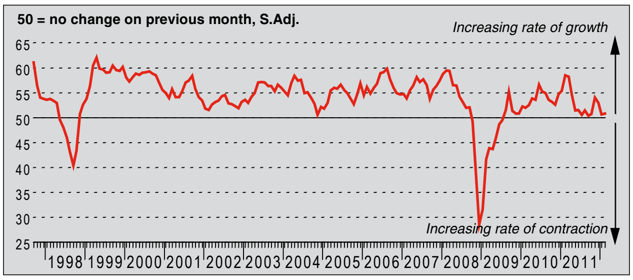
HSBC Russia *Purchasing Managers' Index*™ (*PMI*®)

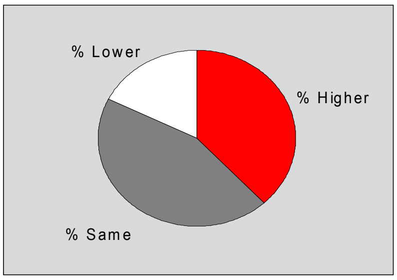


The HSBC Russia *Purchasing Managers' Index*™ (*PMI*®) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output, 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.

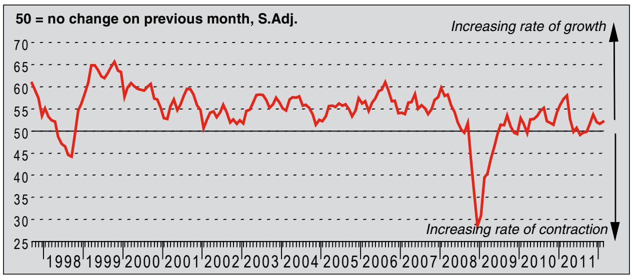


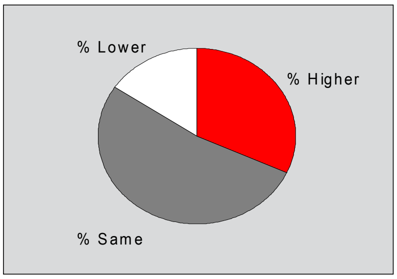


Survey data signalled only a marginal increase in Russian manufacturing production in February. The seasonally adjusted Output Index was little-changed from January, at only just above the neutral threshold of 50.0. That said, the Index has not signalled an outright contraction in production for over two-and-a-half years, having last posted below 50.0 in July 2009. By broad sector, growth was signalled in consumer and investment goods, but a decline was registered at intermediate goods producers.

New Orders Index

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

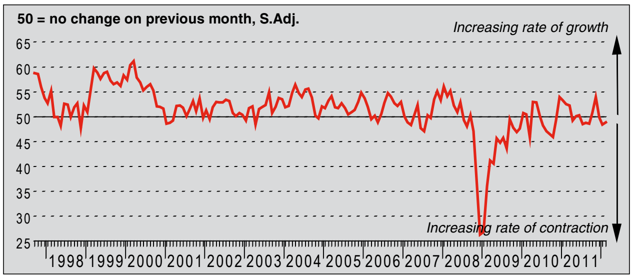


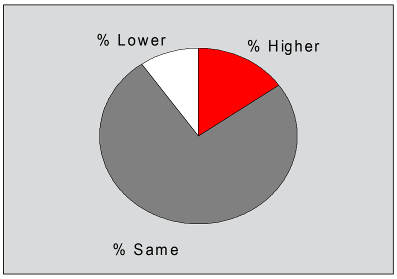


The volume of new orders received by Russian manufacturers rose for the fifth month running in February. The rate of growth edged higher, as signalled by a slight rise in the seasonally adjusted New Orders Index. That said, expansion remained subdued in the context of historic survey data. Higher intakes of new work reflected growth in the consumer and investment goods sectors, while a fall was posted in intermediate goods.

New Export Orders Index

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

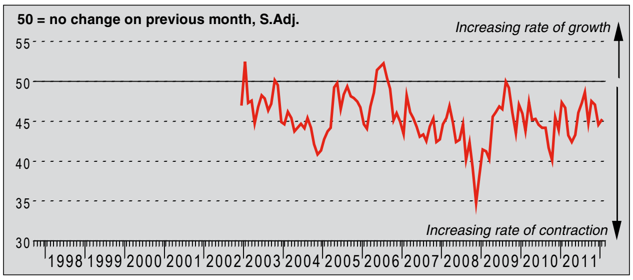


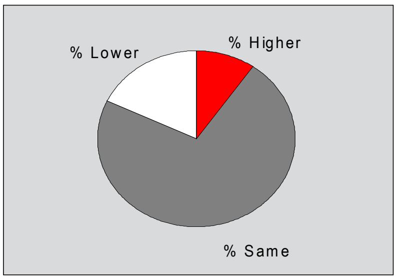


The seasonally adjusted New Export Orders Index remained below the no-change mark of 50.0 in February, indicating a third successive month-on-month decline in new business received from external markets. New export contracts have increased only twice in the past eight months. That said, the rate of decline remained modest in 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.

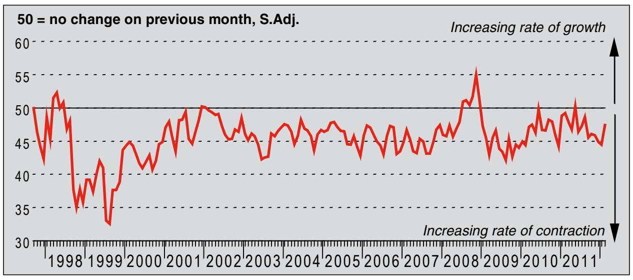


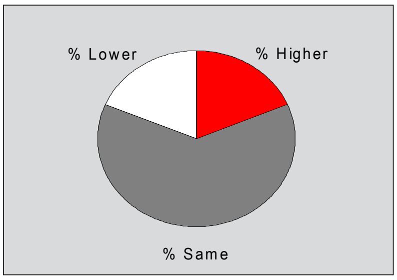


The volume of outstanding business in the Russian goods-producing sector declined for the twenty-ninth consecutive month in February, highlighting ongoing spare capacity in the sector. The rate of contraction eased slightly from January's seven-month record, but remained sharp overall. All three broad sectors registered falling backlogs, with the steepest drop seen at consumer goods producers.

Stocks of Finished Goods Index

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

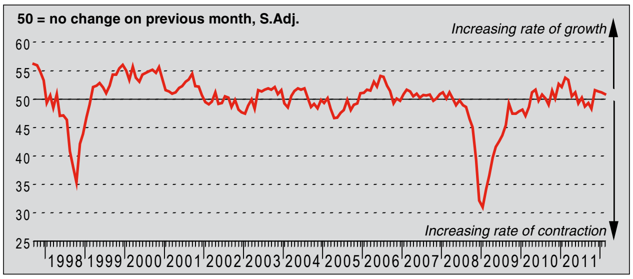


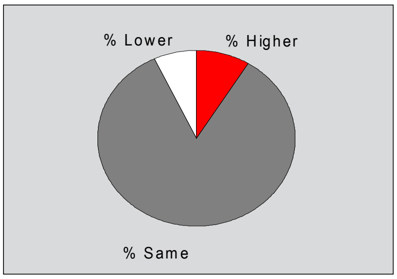


The level of final goods held at Russian manufacturers declined for the ninth month running in February, as manufacturers aimed to ship out completed orders promptly. That said, the seasonally adjusted Stocks of Finished Goods Index moved closer to neutrality, signalling the weakest rate of contraction since last August.

Employment Index

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

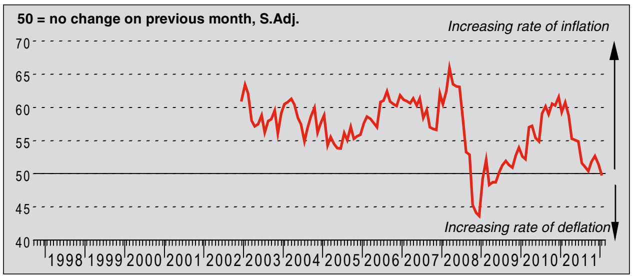


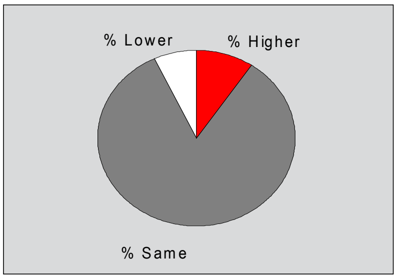


Manufacturing employment in Russia rose for the fourth month running in February. However, the rate of job creation eased for the third successive survey, to a marginal pace. Around 9% of survey respondents reported higher workforce numbers during the month, linked to new projects, restructuring and mergers. Employment rose in the consumer and investment goods industries, but fell at intermediate goods producers.

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.

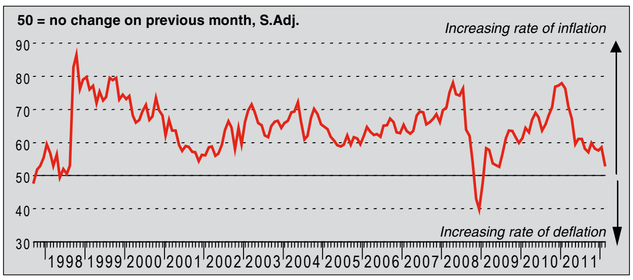


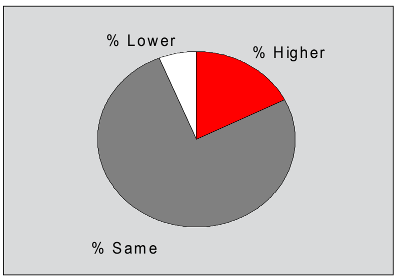


February survey data indicated a flat trend in Russian manufacturers' output prices. The seasonally adjusted Output Prices Index was broadly indicative of no change in charges compared with one month previously. This followed a 31-month sequence of output price inflation. Anecdotal evidence mainly linked the absence of higher output prices to competitive pressures, as firms attempted to stimulate sales.

Input Prices Index

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

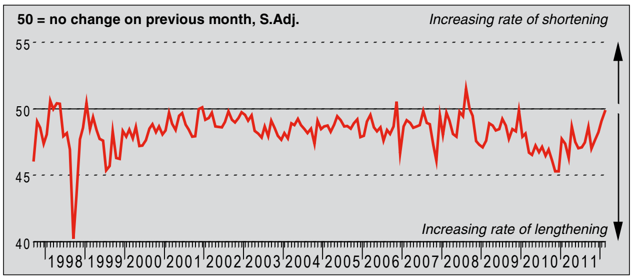


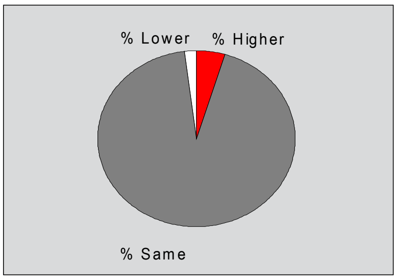


Cost pressures faced by Russian goods producers eased sharply in February. The seasonally adjusted Input Prices Index dropped by 5.5 points and reached a 32-month low. It was also one of the lowest figures in fourteen-and-a-half years of data collection. Where input prices rose, at 18% of firms, raw materials were the main contributing factor. Input price inflation eased across all three broad industry sectors in February.

Suppliers' Delivery Times Index

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

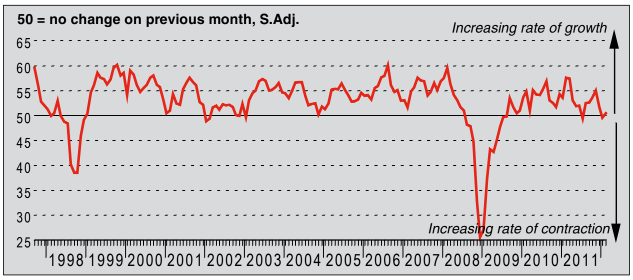


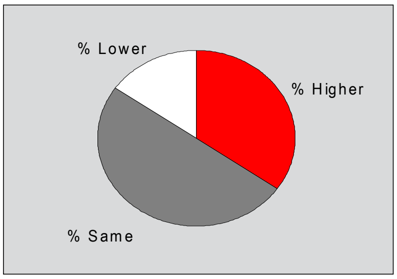


The average time taken to supply inputs to Russian manufacturers was broadly unchanged from one month previously in February. Highlighting this, the vast majority of survey respondents reported no change in vendor performance (93%). Delivery times were slightly longer for both consumer and intermediate goods producers, and were broadly constant in the investment goods sector.

Quantity of Purchases Index

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

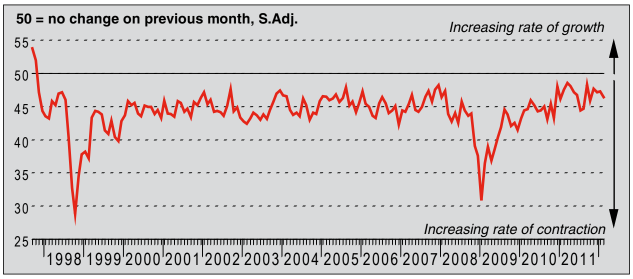


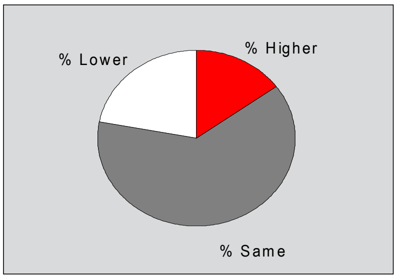


Input volumes ordered in the Russian manufacturing sector rose fractionally in February. Seasonally adjusted survey data have signalled a broadly flat overall trend in purchasing activity during the first two months of the year. Divergent trends were evident by market group, as solid growth at consumer goods producers offset a decline in the investment goods sector, while purchases were largely flat at intermediate goods firms.

Stocks of Purchases Index

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





February data indicated an ongoing contraction in average pre-production stock levels at Russian manufacturers. The seasonally adjusted Stocks of Purchases Index signalled the fastest overall rate of decline for four months, as 22% of survey respondents reported lower warehouse stock levels. Firms linked lower inventories either to deliberate cuts to meet current output requirements, or a shortage of working capital.

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.

Warning