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HSBC Russia Manufacturing PMI®

Russian manufacturing sector gains momentum in April

Key findings:

- PMI increases to highest level in over a year
- Faster growth of new orders and output generates job creation
- · Input price inflation remains below long-run average

The Russian manufacturing sector registered a positive start to the second quarter, according to the latest HSBC *PMI*[®] data compiled by Markit. Output, new orders and purchases of inputs all expanded at faster rates than one month previously, and goods producers expanded workforces at the sharpest pace for over a year. Input price pressures remained weak by the historic standards of the survey.

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 PMI remained above 50.0 for the seventh month running in April, signalling an overall improvement in business conditions in the goods-producing sector. Moreover, the Index rose solidly from March's 50.8 to 52.9, signalling the best overall performance of the sector since March 2011. Four of the PMI's five components provided improved contributions to the headline figure during the month, while the suppliers' delivery times component was neutral. The PMI was greater than its long-run trend level of 52.1 in April.

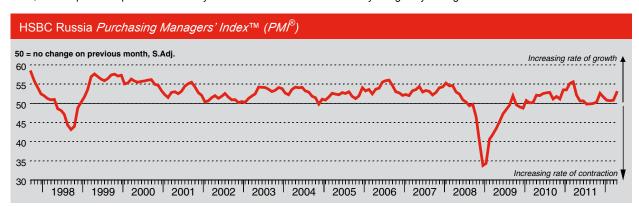
New orders placed with Russian manufacturers rose at a solid pace in April. The rate of expansion was the fastest since March 2011, as companies reported a recovery in market conditions. That said, new business growth has yet to return to its longrun trend pace since the survey began in late-1997. New export business registered a second successive monthly rise, and at a slightly faster pace than in March.

The improved flow of new business led to a stronger rise in output in April. Production increased at the fastest rate since March 2011, and growth was slightly sharper than the long-run survey average. With output growth remaining stronger than new business expansion, backlogs of work continued to fall. However, the rate of depletion eased to the weakest in seven months.

Russian manufacturers expanded their workforces on average in April, following a reduction in March. Moreover, the rate of job creation was the strongest since March 2011.

Growth of purchasing activity picked up further in April, having stagnated at the beginning of the year. The latest increase in input volumes was the fastest since last November, and stronger than the long-run series average. Reflecting this, stocks of purchases fell only marginally across the sector.

Input price inflation remained relatively weak in April, and well below the long-run survey average. Only one-fifth of respondents reported higher input prices than one month previously, citing price hikes by raw material suppliers and higher energy costs. Meanwhile, prices charged for Russian manufactured goods rose only marginally during the month.



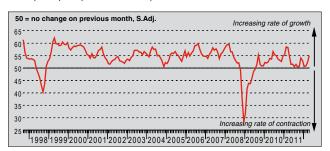
The HSBC Russia $Purchasing\ Managers'\ Index^{TM}\ (PMI^0)$ is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in 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. $Purchasing\ Managers'\ Index^{TM}\ and\ PMI^0$ 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.

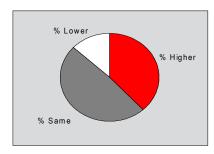




Output Index

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

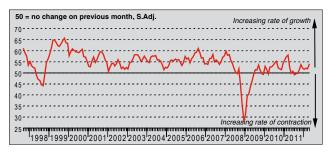


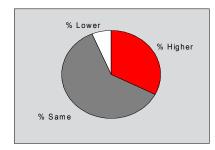


Manufacturing output in Russia grew at an accelerated pace in April. The seasonally adjusted Output index rose for the third month running, and the latest figure signalled the fastest rate of expansion since March 2011. A number of firms linked higher production to a recovery in demand for their products. The current sequence of continuous output expansion now stretches to 33 months. Production growth was strongest in the investment goods sector, followed by consumer goods.

New Orders Index

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

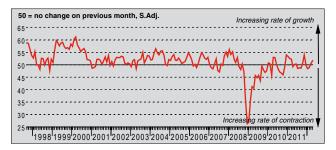




The volume of new business placed with Russian goods producers increased for the seventh month in succession in April. Moreover, the rate of growth picked up from March's modest pace to the fastest in 13 months. Firms that reported higher new orders mentioned winning new customers, successful marketing and new product launches. By market group, the strongest rate of expansion was registered at intermediate goods producers.

New Export Orders Index

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

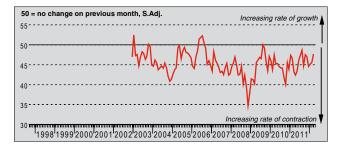




New export orders in the Russian manufacturing sector increased for the second month running in April. The seasonally adjusted New Export Orders Index moved up slightly from March, indicating a slightly faster rate of expansion. The Index was broadly in line with its historic average of 51.5. Prior to March, new business from export markets had declined for three successive months. New export business rose strongly at consumer goods producers, but fell in the investment goods sector.

Backlogs of Work Index

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

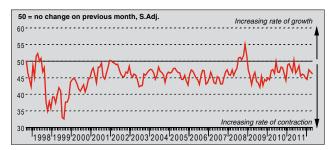


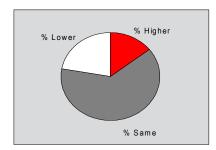


Survey data continued to indicated spare capacity in the Russian goods-producing sector in April, albeit to a lesser extent than during the first quarter of 2012. The seasonally adjusted Backlogs of Work Index remained below the neutral level of 50.0, signalling declining outstanding business. That has been the case every month since October 2009. The rate of contraction in April was the slowest since last September, however, reflecting stronger growth of new work.

Stocks of Finished Goods Index

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



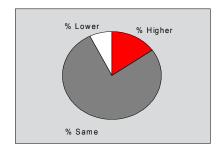


Manufacturers' stocks of finished goods declined in April, as has been the case in every month since last June. The rate of contraction was the fastest in three months, and in line with the average over the current sequence. A number of firms reported that sales had outstripped production during the latest period. Finished goods stocks declined at broadly similar rates across the three market group sectors.

Employment Index

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





Russian manufacturing employment rose in April, having fallen the previous month. Moreover, posting its largest one-month gain for over two-and-a-half years, the seasonally adjusted Employment Index signalled the fastest rate of job creation since March 2011. Around 15% of survey respondents reported hiring growth, mainly linked to new orders. Employment growth was broad-based across all three market groups, led by investment goods.

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.

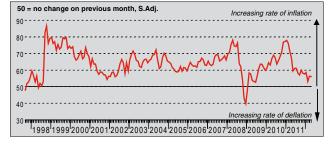


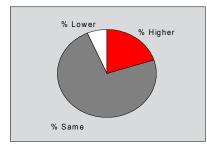


Prices charged by Russian manufacturers rose only fractionally in April. The seasonally adjusted Output Prices Index was above neutrality for the second successive survey period, but at the third-lowest level in over two-and-a-half years. Reflecting competitive pressure, 86% of survey respondents reported no change in their charges since one month previously. Charges fell slightly for consumer goods, but increased for both intermediate and investment goods.

Input Prices Index

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

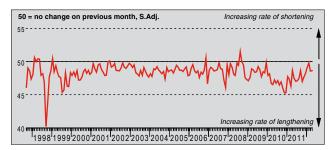




The seasonally adjusted Input Prices Index was little-changed in April from one month earlier, signalling another muted increase in average prices paid by Russian manufacturers for their raw materials and components. The Index has generally trended lower since the start of 2011, and remained well below its long-run average of 64.4 in the latest period. One-fifth of firms reported higher input prices on the month, citing energy, plastics and price hikes by suppliers of raw materials. Input price inflation was strongest in the investment goods sector.

Suppliers' Delivery Times Index

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

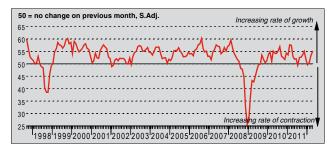


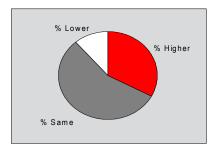


Vendor performance in the Russian manufacturing economy continued to deteriorate slightly in April. Average lead times lengthened at a broadly similar pace to that registered at the end of the first quarter. Less than 3% of survey respondents reported delays, which they linked to transport problems, Chinese imports and pressure on suppliers.

Quantity of Purchases Index

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

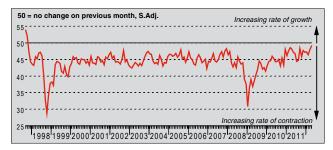


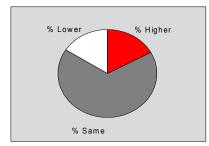


The volume of inputs purchased by Russian manufacturers rose at a solid pace in April. The current sequence of growth now stretches to three months, and the rate of expansion was the fastest since last November. Moreover, the seasonally adjusted Quantity of Purchases Index was above its historic average of 53.0. Firms directly linked higher purchasing to growth of output and new orders. By market group, purchasing growth was strongest in the investment goods sector.

Stocks of Purchases Index

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





April survey data signalled only a marginal decline in manufacturers' inventories of pre-production materials. The seasonally adjusted Stocks of Purchases Index improved for the second month running to the highest since October 1997. It was also the third-highest figure in the series history. A broadly similar proportion of firms reported increasing stocks as those that registered contractions.

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' IndexTM (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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