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HSBC Russia Manufacturing PMI®

Russian manufacturing new order growth accelerates in May

Key findings:

- New business expansion fastest since March 2011
- · Growth of output and employment maintained
- Input price inflation at second-lowest level in nearly three years

The Russian manufacturing sector gained further growth momentum in May, according to the latest HSBC *PMI*® data compiled by Markit. Central to the improved performance of the sector was sharper growth of new business, the fastest for over a year. This helped sustain higher output and employment, while inflationary pressures remained relatively weak.

The survey's headline figure is the HSBC *Purchasing Managers'* $Index^{TM}$ (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 eighth month running in May, signalling an overall improvement in business conditions in the Russian goods-producing sector. Moreover, the Index rose for the third month running to 53.2, the highest reading since March 2011. Four components of the headline index – new orders, output, employment and suppliers' delivery times – exerted positive influences in the latest period, while stocks of purchases was broadly neutral. The PMI was greater than its long-run trend level of 52.1 during the month.

The volume of new orders received by Russian manufacturers rose for the eighth successive month in May. Moreover, the rate of expansion was the fastest since March 2011, and slightly sharper than the long-run average. Export growth supported

the overall rise in new business for the third month running, with the rate of expansion in new export orders the fastest since last November.

Manufacturing output in Russia increased for the thirty-fourth successive month in May. The rate of expansion eased from April's 13-month peak, but was solid nonetheless. By sector, the fastest rate of expansion was recorded in consumer goods.

The robust gain in new work mid-way through the second quarter generated higher employment and purchasing activity. Workforces expanded on average for the second month running, and at the fastest rate since March 2011. Input buying increased for the fourth successive month.

Rising demand for inputs generated extra pressure on vendors in May. The rate at which suppliers' delivery times lengthened was the greatest in six months.

Inflationary pressures remained subdued in May. The rate at which firms' input prices increased was the second-weakest since June 2009, and much lower than the long-run survey average. Where input prices rose, this was partly linked to the weaker rouble, alongside higher energy and fuel costs.

Pricing power in the Russian goods-producing sector remained weak in May. The rate of output price inflation was well below the long-run survey average, and less than 7% of firms reported higher charges than one month previously.



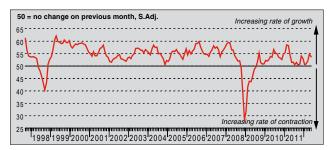
The HSBC Russia $Purchasing\ Managers'\ Index^{TM}\ (PMI^0)$ is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in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

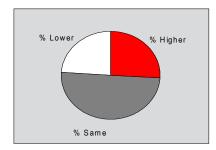




Output Index

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

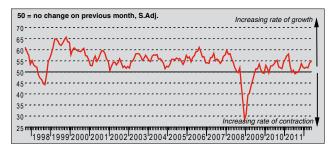


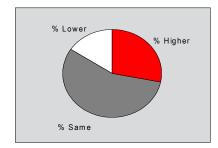


The seasonally adjusted Output Index signalled further growth of production at Russian manufacturers mid-way through the second quarter. The rate of expansion was solid, despite easing from April's 13-month high. Firms mainly linked higher output to improving demand, while there were also reports of expanded capacity. The Index was only slightly weaker than its long-run average of 54.2 in May. By market group, growth was notably sharp at consumer goods producers.

New Orders Index

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

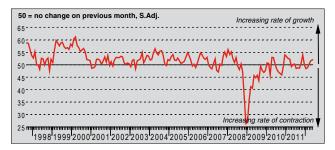




Manufacturing new orders in Russia rose for the eighth month running in May. Moreover, the rate of expansion strengthened for the second month running, to the highest since March 2011. The seasonally adjusted New Orders Index was greater than its long-run trend level of 54.6. A number of companies reported winning new clients during the month, and also new product ranges. Consumer goods posted the strongest rise in new orders, followed by 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.

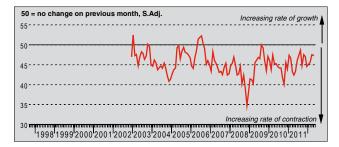


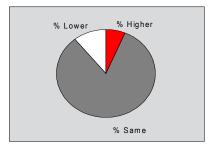


New export contracts received by Russian goods producers increased for the third month running in May, the longest sequence of expansion since early-2011. The seasonally adjusted New Export Orders Index moved higher for the fourth month running, and signalled the fastest rate of expansion since last November. It was also above its long-run average of 51.5. Firms reported expanding into international markets and improving demand.

Backlogs of Work Index

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

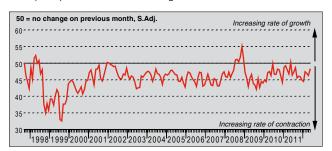


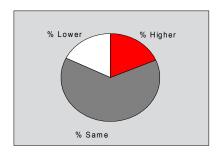


Although new orders rose at a solid rate in May, the volume of outstanding business continued to fall. The seasonally adjusted Backlogs of Index remained below the no-change mark of 50.0, as has been the case since October 2009. The latest figure signalled a broadly similar rate of contraction as in April, which was the slowest since last September. Backlogs fell across all three market groups, led by investment goods.

Stocks of Finished Goods Index

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



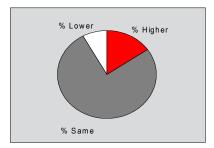


Russian manufacturers' holdings of post-production goods fell overall in May. Firms mainly linked lower inventories to increased sales. The current sequence of stock depletion now extends to 12 months. That said, the rate of contraction eased to a modest pace that was the slowest since last August. Inventories at consumer goods producers bucked the trend, posting a marginal expansion.

Employment Index

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



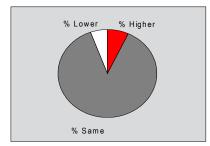


Manufacturing employment in Russia rose for the second month running in May. Moreover, the rate of job creation remained relatively sharp in the context of historic survey data, and edged up to the fastest since March 2011. Around 15% of survey respondents reported increasing headcounts during the month, linked to higher production. Employment growth was broad-based across all three broad sectors for the second month running.

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.

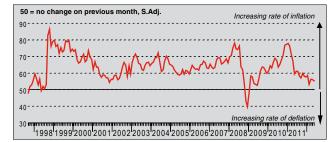


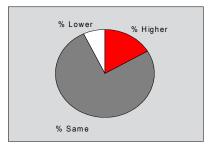


Survey data indicated a third successive monthly rise in prices charged for Russian manufactured goods in May. Charges have risen in 34 of the past 35 months. However, the rate of output price inflation remained weak in the latest period, as less than 7% of firms raised their charges since one month previously. The seasonally adjusted Output Prices Index has been well below its long-run average of 56.7 throughout the past year.

Input Prices Index

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

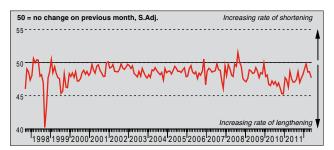




Average input prices paid by Russian goods producers rose in May. However, the seasonally adjusted Input Prices Index was at its second-lowest level of the past 35 months. Inflationary pressure on firms' input prices has been weaker than the survey's historic trend throughout the past year. Some firms linked higher input prices to the weaker rouble (versus the US dollar). Other sources of rising input prices included energy and fuel.

Suppliers' Delivery Times Index

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

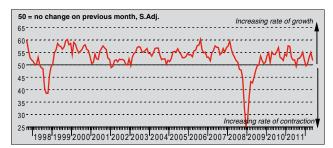




The seasonally adjusted Suppliers' Delivery Times Index remained below the no-change mark of 50.0 for the forty-fourth successive month in May, indicating another lengthening of average input shipping times in the Russian manufacturing sector. Moreover, the degree of lengthening was the greatest for six months. Firms mainly blamed poor supplier performance and transport infrastructure for delays.

Quantity of Purchases Index

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

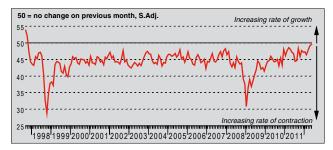


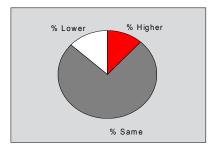


Purchasing activity in the Russian manufacturing sector increased for the fourth successive month in May. The seasonally adjusted Quantity of Purchases Index moved lower, however, signalling the weakest rate of expansion in three months. Growth of purchasing was also weak in the context of historic survey data. Around 23% of firms reported higher input volumes, linked to higher demand and production requirements. Strong purchasing growth in the consumer goods sector offset slight falls in both intermediate and investment goods.

Stocks of Purchases Index

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





Pre-production inventories at Russian manufacturers declined fractionally in May. The rate of contraction was marginal, as signalled by the seasonally adjusted Stocks of Purchases Index registering below 50.0, but at the third-highest level in the survey history.

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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