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# HSBC Russia Manufacturing PMI®

Russian manufacturing expansion loses momentum in June

## Key findings:

- · Weaker growth of output and new orders
- · Marginal drop in employment
- Input price inflation at lowest level in nearly three-and-a-half years

The Russian manufacturing sector ended the second quarter of 2012 on a weak note, according to the latest HSBC *PMI*® data compiled by Markit. New orders and production both rose more slowly, while firms shed staff on average. A fourth successive monthly rise in new export orders was a positive outcome, while inflationary pressures continued to soften.

The survey's headline figure is the HSBC *Purchasing Managers' Index*<sup>TM</sup> (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 ninth month running in June, signalling an overall improvement in business conditions in the Russian goods-producing sector. On a quarterly basis, over Q2 the PMI registered its highest level since Q1 2011 (52.3). However, the Index declined from 53.2 in May to 51.0, indicating only a modest rate of improvement. The month-onmonth fall in the PMI was one of the steepest in the past three-and-a-half years. All five components of the PMI contributed to the decline in the Index, most notably output, new orders and employment.

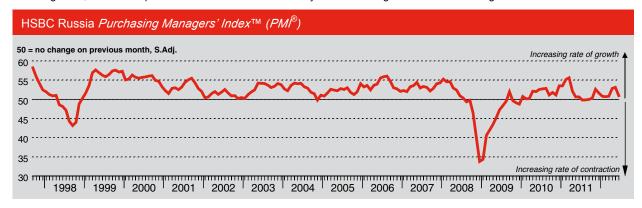
New orders rose for the ninth month running in June, but at the weakest rate since March. External demand supported overall growth, as new export business increased modestly for the fourth consecutive month. That was the joint-longest sequence of export growth in four years.

Production growth was maintained in June, stretching the current period of expansion to nearly three years. That said, the rate of growth was the slowest in four months, and weak in the context of historic survey data. Consumer goods underpinned overall growth, while production of intermediate goods was broadly unchanged.

Backlogs of work continued to fall in June, and the rate of decline accelerated to the fastest in three months. Reflecting this lack of pressure on capacity, firms cut employment marginally following two months of solid job creation.

Manufacturers in Russia continued to increase their purchasing of inputs in June. The rate of growth was unchanged from May's moderate pace, however, and stocks of purchases fell at the fastest pace in four months.

The latest survey highlighted a further slackening of inflationary pressures in the goods-producing sector mid-way through 2012. The rate of input cost inflation slowed for the third month running, to the weakest in the current 41-month period of rising prices. Meanwhile, factory gate prices increased only modestly, at a rate that was much weaker than the long-run series average. By broad market group, inflationary pressures were strongest in the consumer goods sector.



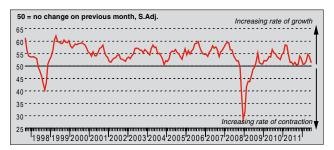
The HSBC Russia  $Purchasing\ Managers'\ Index^{TM}\ (PMI^0)$  is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in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

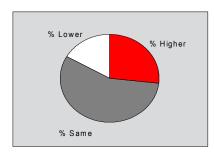




### **Output Index**

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

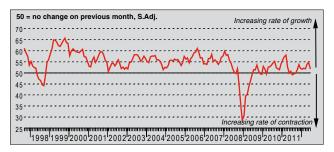


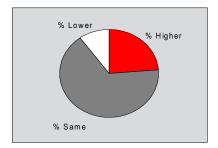


Russian manufacturing production rose in June, mainly linked by firms to higher new orders. The current sequence of expansion now stretches to almost three years. The seasonally adjusted Output Index fell for the second month running, and signalled the weakest rate of growth since February. Nevertheless, averaged over the second quarter the Index was at its highest since Q1 2011. Consumer goods continued to show the fastest rate of expansion, albeit much slower than in May.

#### New Orders Index

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

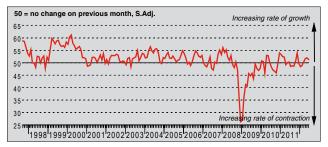


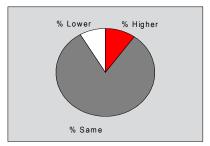


The volume of new orders received by Russian goods producers increased for the ninth successive month in June. The rate of expansion slowed from May's 14-month high, however, to the weakest since March. The seasonally adjusted New Orders Index was below its long-run average of 54.6 during the latest period. Broad sector data showed a marked rise in new business for consumer goods producers, contrasting with a fall in investment goods new orders.

## New Export Orders Index

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

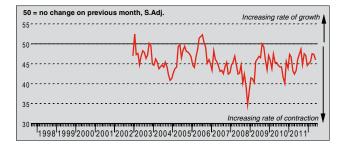




New export business in the Russian manufacturing economy rose for the fourth month running. That marked the joint-longest sequence of expansion in four years. A number of firms reported winning new customers during the month. That said, the overall pace of growth slowed in the latest period to a moderate level. New export business fell marginally at consumer goods producers, but rose in both the intermediate and investment goods sectors.

## Backlogs of Work Index

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

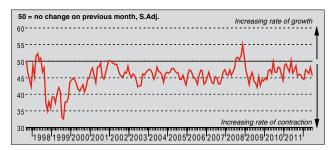


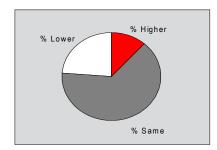


The seasonally adjusted Backlogs of Work Index remained below the no-change mark of 50.0 in June, indicating falling outstanding business at Russian goods producers. The rate of depletion accelerated, reflecting a weaker rise in new work. The current sequence of backlog reduction now stretches to 33 months. Incomplete workloads declined across all three broad sectors, with the sharpest fall recorded in intermediate goods. Firms generally reported a lack of pressure on production capacity.

### 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 final goods declined on average in June. Stocks of finished products have fallen for the past 13 months, and the rate of contraction accelerated in the latest period to the fastest since January. Inventories fell sharply at both intermediate and investment goods producers, while a marginal increase was recorded in the consumer goods sector.

## **Employment Index**

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





Reflecting the moderation in new order growth, manufacturers in Russia cut their workforces on average in June. That followed two months of solid job creation in the sector. Lower staffing was also the result of efforts to cut costs and productivity drives. That said, the seasonally adjusted Employment Index was only fractionally below the no-change mark of 50.0, signalling a marginal rate of job shedding. Job losses were mainly prevalent in the intermediate and investment goods sectors, as employment rose overall at consumer 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.

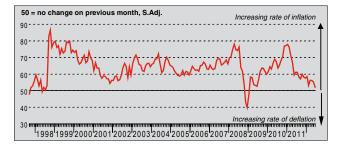


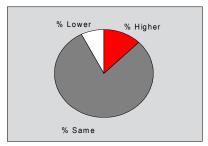


Prices charged for final manufactured goods rose in June. Factory gate prices have risen every month for the past three years except for a pause in February. But the seasonally adjusted Output Prices Index remained well below its long-run average (56.6), signalling muted pricing power at goods producers. Charges were broadly unchanged at investment goods producers.

# Input Prices Index

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

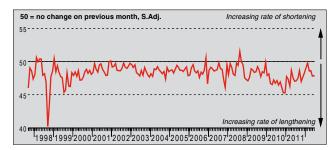




Cost pressures faced by Russian manufacturers moderated further in June. The seasonally adjusted Input Prices Index eased for the third successive month, and indicated the weakest rate of input cost inflation of the current 41-month sequence of rising prices. Where input prices rose, at 13% of firms, panellists often attributed this to the increased cost of imported items as a result of the weakening rouble.

### Suppliers' Delivery Times Index

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

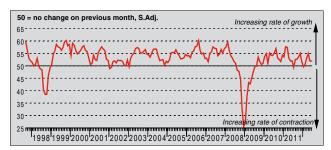




The seasonally adjusted Suppliers' Delivery Times Index remained below the neutral threshold of 50.0 in June, signalling an overall deterioration in the performance of firms supplying Russian manufacturers. The Index was little-changed from May, indicating that the rate of lengthening in lead times was broadly constant. Of the three broad market groups, longer supplier delivery times were most prevalent in the consumer goods sector.

## Quantity of Purchases Index

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

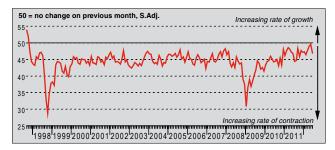


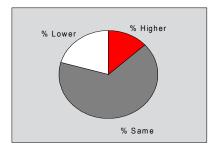


Purchasing activity in the Russian manufacturing sector rose for the fifth consecutive month in June. The rate of expansion was unchanged from May's moderate pace, and weaker than the long-run survey average. Higher purchases were linked to rising production requirements. Purchasing activity rose across all three market group sectors, albeit at modest rates in each case.

# Stocks of Purchases Index

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





Manufacturers' holdings of pre-production goods continued to decline in June. The seasonally adjusted Stocks of Purchases Index declined for the first time since February, signalling a sharper rate of contraction than in May. A rise in input inventories at intermediate goods producers was more than offset by sharp falls in both the consumer and investment goods sectors.

## 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<sup>TM</sup> (PMI<sup>®</sup>) 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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