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HSBC Russia Manufacturing PMI®

Russian manufacturing business conditions remain subdued

Key findings:

- · Growth of both output and new orders remain lacklustre
- Exports register only marginal expansion
- · Employment unchanged since June

The Russian manufacturing sector remained on a weak growth trajectory in July, despite registering a slight improvement since the previous month. The latest HSBC *PMI*[®] data compiled by Markit showed faster increases in new orders and production, but growth rates remained slower than the long-run survey trends. The level of employment stabilised following June's marginal fall, while inflationary pressures remained relatively weak.

The survey's headline figure is the HSBC *Purchasing Managers'* $Index^{\text{TM}}$ (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 tenth month running in July, signalling an overall improvement in business conditions in the Russian goods-producing sector. The PMI improved from 51.0 in June to 52.0, above the average for the current growth sequence but weaker than the trend for Q2 (52.3). Four of the components contributed to the rise in the headline index, the exception being stocks of purchases.

New business received by Russian manufacturers rose in July, continuing the trend observed since October 2011. The rate of growth picked up since June and was greater than the average over the current sequence, but still weak when compared with before the financial crisis. New export orders rose for the fifth

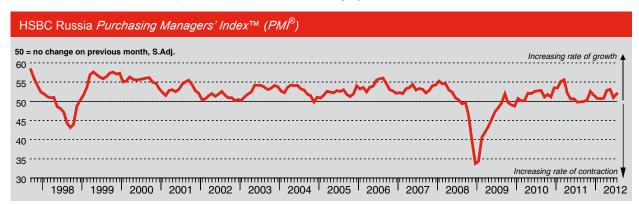
successive month – the longest sequence in over four years – but the pace of expansion was only marginal.

Higher new orders led to a further rise in manufacturing output in July. The current growth sequence now stretches to three years, and the rate of expansion strengthened on the month for the first time since April. That said, output growth remained weak in the context of historic survey data. Production was again supported by the completion of outstanding business, as backlogs of work declined for the thirty-fourth successive month.

The lack of pressure on capacity was highlighted by a flat trend in manufacturing employment. The level of staff employed was unchanged from June, after having increased moderately in April and May.

Russian goods producers expanded purchasing activity at the fastest rate in three months in July. Despite this, the level of inputs held in stock declined at the strongest rate since February. Further stock clearing was also evident, as inventories of final goods declined at the strongest rate since October 2009.

Cost pressures facing Russian manufacturers strengthened from June's 41-month low, in part reflecting higher energy prices. However, the rate of input cost inflation remained much weaker than the long-run survey average. A similar pattern was evident for output prices, where the rate of inflation quickened slightly, but remained moderate overall.



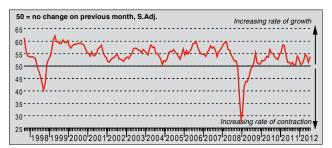
The HSBC Russia $Purchasing\ Managers'\ Index^{TM}\ (PMI^0)$ is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in 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. $Purchasing\ Managers'\ Index^{TM}\ and\ PMI^0\ are trade marks of\ Markit Economics Limited, HSBC use the above marks under licence. Markit and the Markit logo are registered trade marks of\ Markit Group Limited.$

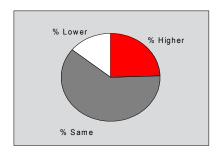




Output Index

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

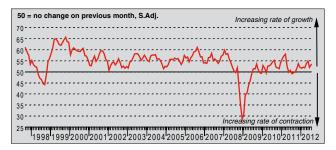


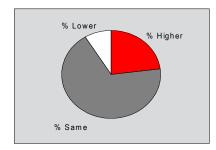


Manufacturing production in Russia rose in July, extending the current sequence of continuous expansion to three years. The rate of growth accelerated from June's modest pace, as signalled by a rise in the seasonally adjusted Output Index. The latest figure remained below the survey's long-run trend level, however. Data indicated a strong rise in output of consumer goods, but a modest fall in intermediate goods.

New Orders Index

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

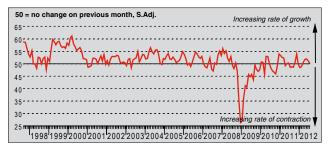




The volume of incoming new business in the Russian goods-producing sector grew at a faster pace in July. The seasonally adjusted New Orders Index recovered some ground from June's fall, but still signalled a below-par rate of expansion at the start of the second quarter. New business has risen every month since October 2011. Growth of new investment goods orders recovered from June's fall, but new business at intermediate goods producers declined slightly in July.

New Export Orders Index

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

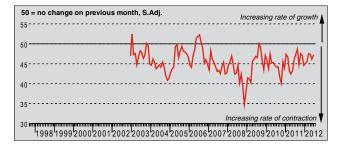


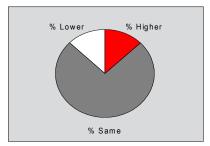


International demand for Russian manufactured goods remained relatively weak in July. The seasonally adjusted New Export Orders Index was at a level indicative of only a marginal rate of growth. That said, the current five-month sequence of expansion is the longest in over four years. Overall growth of new export business was underpinned by the intermediate 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.

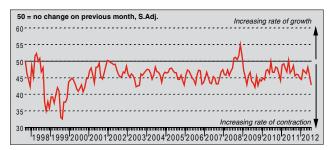


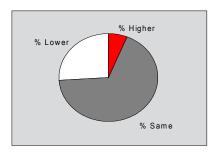


Backlogs of work at Russian goods producers declined in July, continuing the trend observed since October 2009. The rate of depletion eased slightly in the latest period, but was still the second-fastest in four months. Backlogs fell across all three broad sectors, led by investment goods producers. Firms generally reported that capacity was sufficient to deal with current workloads.

Stocks of Finished Goods Index

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

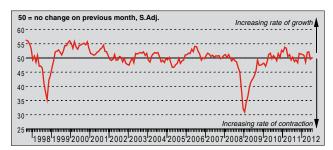


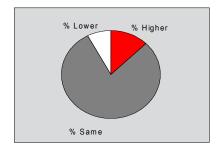


The seasonally adjusted Stocks of Finished Goods Index fell to a 33-month low in July, signalling a sharp overall fall in the level of completed products held at Russian manufacturers. More than one-quarter of the survey panel reported lower stock holdings than one month previously, linked to customer orders, optimised production schedules and lowering of safety stock thresholds.

Employment Index

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

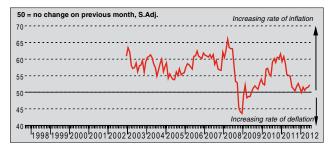




Equalling the no-change mark of 50.0 in July, the seasonally adjusted Employment Index signalled that the number of workers employed at Russian manufacturers was unchanged since June. That followed a marginal fall in June. The absence of overall recruitment growth in July reflected a lack of pressure on capacity in the sector. Employment rose in the consumer goods sector, but fell in the two remaining areas.

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.





Average prices charged for Russian manufactured goods rose for the fifth successive month in July. Firms linked higher output prices to rising input costs, including energy and fuel. The rate of output price inflation picked up to the fastest in 2012 so far, but the seasonally adjusted Output Prices Index remained well below its long-run trend level of 56.6. By sector, charge inflation was strongest in consumer goods.

Input Prices Index

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

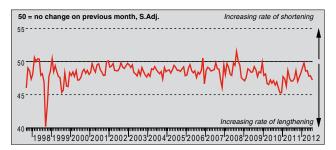


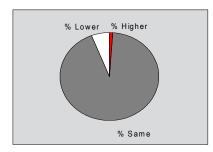


The rate of input price inflation in the Russian goods-producing sector accelerated in July, having slowed to a weak pace the previous month. Anecdotal evidence highlighted rising energy costs, as well as exchange rate movements. The seasonally adjusted Input Prices Index recovered from June's 41-month low, and signalled the fastest rate of increase since January. That said, it remained well below its long-run average of 64.2. Input price inflation was strongest at consumer goods producers.

Suppliers' Delivery Times Index

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

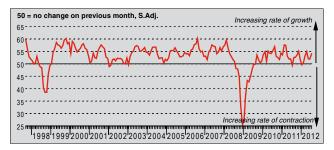


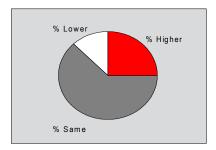


The seasonally adjusted Suppliers' Delivery Times Index remained below the neutral threshold of 50.0 in July, signalling deteriorating vendor performance. Some firms reported ongoing problems with rail freight services. Moreover, the rate of lengthening in input delivery times was the most substantial recorded since last October. Times lengthened to broadly similar degrees across all three product sectors.

Quantity of Purchases Index

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

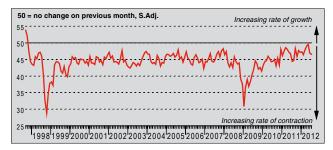


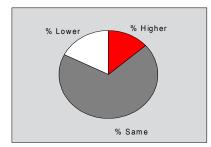


The volume of inputs ordered by Russian manufacturers rose for the sixth month running in July. The rate of expansion accelerated to a three-month high, and was strong in the context of historic survey data. Just over one-quarter of firms reported raising purchasing activity during the month, mainly linked to higher output requirements. Robust increases were registered at both consumer and investment goods producers.

Stocks of Purchases Index

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





Pre-production inventories in the Russian manufacturing sector declined on average in July. Moreover, the rate of reduction accelerated for the second month running to the fastest since February. Survey respondents reported that reductions were both planned and reflective of increased production.

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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