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HSBC Russia Manufacturing PMI®

Manufacturers see strongest rise in new orders in over a year-and-a-half

Key findings:

- Growth rates of new business and output both at 19-month highs
- Weaker rise in average input prices
- Employment growth slows to marginal pace

Russian manufacturing started the final quarter of 2012 on a bright note. The latest HSBC *PMI*® data compiled by Markit signalled a further strengthening of business conditions, as new orders and output both increased at the fastest rates in over a year-and-a-half. Less positive survey findings included a dip in export demand and only a marginal gain in manufacturing employment. Inflationary pressures eased during the month and remained much weaker than the longrun survey trend.

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 rose for the second month running in October, posting 52.9. That signalled the best overall operating conditions faced by Russian goods producers in five months, and was greater than the long-run survey average of 52.1. The rise in the PMI reflected stronger growth of both output and new orders, but was tempered by a slower rate of job creation. The headline index has now remained above the no-change mark of 50.0 for the past 13 months.

Driving the strengthening in overall business conditions

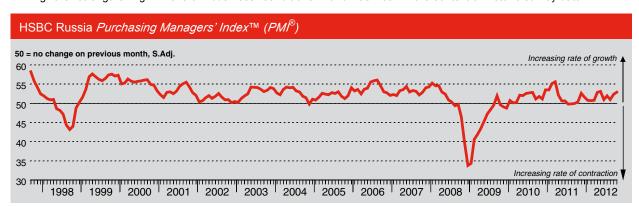
in October was a faster increase in new business inflows. The volume of new work received rose for the thirteenth successive month, and at the sharpest pace since March 2011. This was despite a slight fall in new export orders, the second contraction of the past three months.

Production growth in the Russian manufacturing sector accelerated to a 19-month high in October. Output was supported both through the intake of new orders and the completion of existing workloads. Backlogs continued to fall overall, albeit at the slowest rate in five months.

Russian manufacturers raised headcounts for the third month running in October, mainly to accommodate increased receipts of new work. That said, the rate of job creation in the sector slowest to only a marginal pace.

Purchasing activity by goods producers in Russia rose in October, extending the current sequence of expansion to nine months. The rate of growth was the strongest since July, and faster than the long-run survey average. Despite this, stocks of inputs continued to fall, and at a sharp rate.

Input prices continued to rise in October, but at a much slower pace than in the previous month. Input price inflation also remained much weaker than the long-run survey trend. Similarly, the rate of output price inflation eased on the month, and was weak in the context of historic survey data.



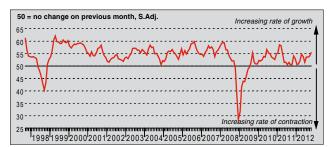
The HSBC Russia $Purchasing\ Managers'\ Index^{TM}\ (PMI^0)$ is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in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

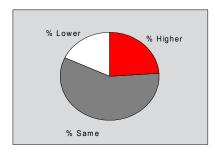




Output Index

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

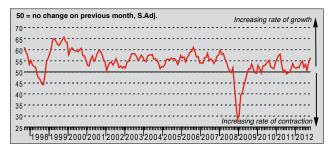


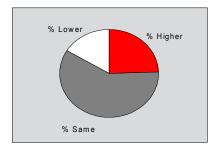


Russian goods producers expanded output for the thirty-ninth month in succession in October. Moreover, the rate of growth strengthened, as the seasonally adjusted Output Index reached its highest level since March 2011. The Index was also greater than its long-run trend level of 54.2. Firms mainly attributed higher output to improving new order inflows. Production rose solidly in all three market group sectors, led by intermediate goods.

New Orders Index

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

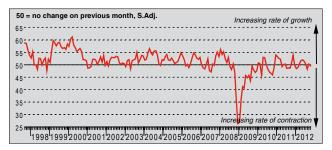


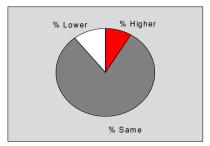


The seasonally adjusted New Orders Index remained above the no-change mark of 50.0 for the thirteenth successive month in October, indicating growth of new business in the Russian manufacturing sector. Moreover, the rate of expansion accelerated further from August's marginal pace, to the fastest since March 2011. Firms linked new order growth to marketing, new clients, improved product quality and strengthening demand generally. By sector, new business expansion was strongest 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.



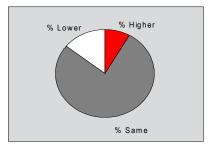


October survey data indicated a fall in the volume of new business received by Russian goods producers from export markets. The seasonally adjusted New Export Orders Index was below the neutral threshold for the second time in three months, although the latest figure signalled only a marginal rate of decline. The overall contraction mainly reflected a further drop at producers of investment goods.

Backlogs of Work Index

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

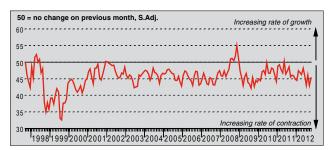


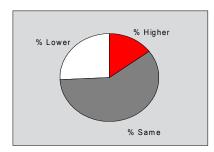


Although new orders rose sharply during October, backlogs at Russian manufacturers continued to fall, indicative of spare capacity in the sector. Outstanding workloads have not risen (on average) since September 2006. That said, the rate of depletion slowed from September's 15-month record to the weakest since May. The overall drop in backlogs masked a rise in the consumer goods sector.

Stocks of Finished Goods Index

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



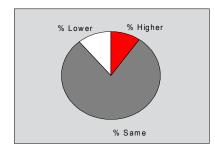


The seasonally adjusted Stocks of Finished Goods Index remained below the no-change mark of 50.0 in October, suggesting goods producers in Russia continued to optimise warehouse levels. The rate of inventory depletion slowed from September's 35-month record, but remained sharp overall. Some firms linked lower stock levels to stronger sales growth.

Employment Index

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

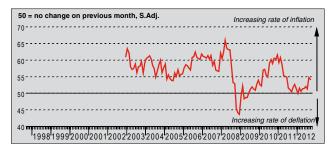


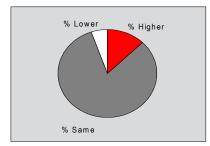


Russian manufacturing employment increased for the third month in a row in October. Anecdotal evidence directly linked recruitment to rising new orders and production. The rate of job creation slowed over the month, however, to only a very weak pace. Moreover, the overall increase in employment masked declines in both the consumer and investment goods sectors.

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.

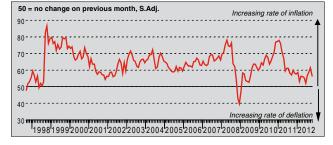




Manufacturers in Russia increased the prices of their finished goods in October. That extended the current sequence of factory gate price inflation to eight months. The rate of inflation was solid, albeit weaker than September's 14-month peak. The seasonally adjusted Output Prices Index was also below its long-run average of 56.5. Firms linked higher charges to rising input prices. By sector, output price inflation was strongest at producers of intermediate goods.

Input Prices Index

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

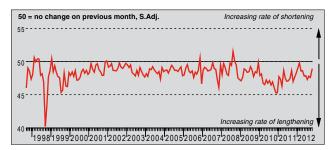


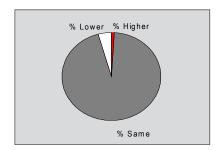


Input prices paid by Russian manufacturers continued to rise in October, as has been the case in every month since February 2009. A number of survey respondents highlighted rising fuel prices during the month. The strength of input cost inflation remained much weaker than the survey's long-run average, however, and slowed sharply since September. Input price inflation slowed across all three broad areas of manufacturing, with the weakest overall increase shown 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.

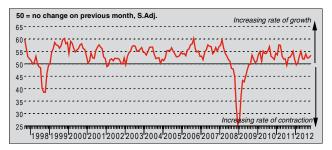


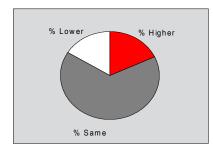


Vendor performance in the Russian manufacturing sector continued to deteriorate in October, as signalled by a sub-50.0 reading from the seasonally adjusted Suppliers' Delivery Times Index. Where delays were evident, this was mainly attributed to transport problems. That said, average input delivery times lengthened to the smallest extent in eight months. Longer suppliers' delivery times were more prevalent at manufacturers of consumer and investment goods than at producers of intermediate goods.

Quantity of Purchases Index

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

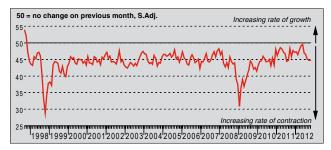


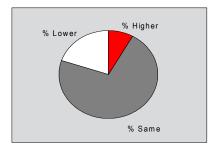


In line with higher output and new business, the volume of inputs ordered by Russian goods producers increased in October. The current sequence of expansion now stretches to nine months. The rate of growth was the strongest in three months, and broadly in line with the survey's historic trend. Purchasing growth was broad-based across all three sectors, led by intermediate goods producers.

Stocks of Purchases Index

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





The seasonally adjusted Stocks of Purchases Index was unchanged from September, indicating a marked rate of contraction in Russian manufacturers' input stocks in October and the joint-fastest decline for more than a year. Firms reported higher output and adequate stock levels. Inventory depletion was most pronounced in the investment goods sector.

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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