HSBC *Purchasing Managers' Index*™ 2012

compiled by markit

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HSBC Russia Manufacturing PMI®

Manufacturing business climate stabilises in December

Key findings:

- PMI equals no-change mark of 50.0
- Employment falls at fastest rate since August 2009
- New export business declines at fastest rate since October 2010

Russia's manufacturers ended 2012 on a weak note, according to December HSBC *PMI*® data compiled by Markit. New orders rose at a weaker rate, partly reflecting a drop in new export business. This lead to a near-stagnation in output growth, and firms cut workforces at the fastest rate in over three years. Meanwhile, manufacturers' input stocks contracted at the fastest rate in more than two years as growth of purchasing activity slowed to a marginal pace. Inflationary pressures in the sector remained relatively weak.

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 equalled the no-change mark of 50.0 in December, ending a 14-month period of positive readings. The fall in the PMI from November's 52.2 was among the steepest registered in the past four years, and took the average for the final quarter of 2012 below those for both Q2 and Q3. The downward movement in the index was primarily influenced by its three main components – new orders, output and employment.

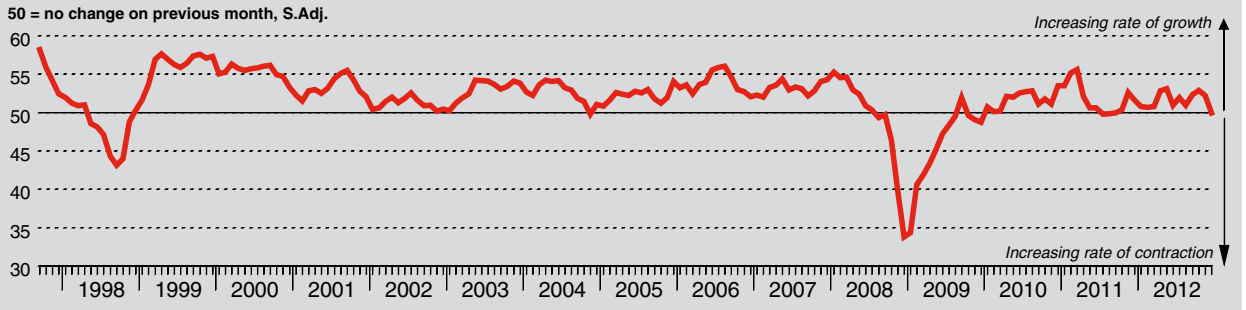
New orders received by Russian manufacturers rose for the fifteenth successive month in December. That said, the rate of expansion slowed further from October's 19-month high, to a four-month low. It was also weak in the context of historic survey data. Moreover, new export business declined for the third time in five months, and at the fastest rate since October 2010.

The weakening trend in new order growth resulted in a near-stagnation in output in December. Production rose at a marginal rate that was the slowest since September 2011. Output rose slightly in the consumer goods sector, was broadly flat in the intermediate goods sector and fell marginally in the investment goods sector.

Russian manufacturers reduced headcounts for the second month running in December, the first back-to-back fall in employment in the sector for over a year. Moreover, the rate of job shedding was the fastest since August 2009. Goods producers also cut input stocks at the fastest rate since November 2010, as they raised purchasing of new inputs at only a marginal pace.

Cost pressures remained subdued in the context of historic survey data in December. The rate of input price inflation was little-changed from November's five-month low, with firms generally linking any increases to rising labour costs. Similarly, pricing power remained muted, with output prices rising at a modest rate that was unchanged from November.

HSBC Russia *Purchasing Managers' Index*™ (*PMI*®)



The HSBC Russia *Purchasing Managers' Index*™ (*PMI*®) 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*™ and *PMI*® 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.

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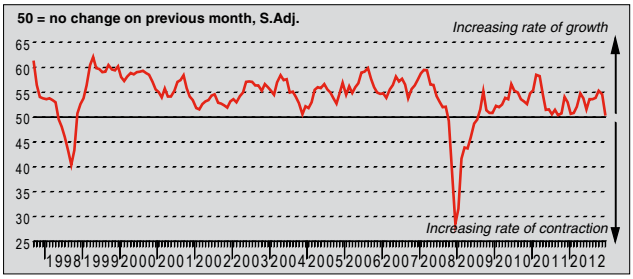
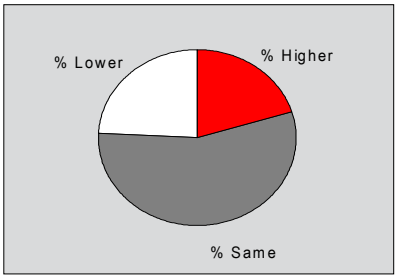
Output Index

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

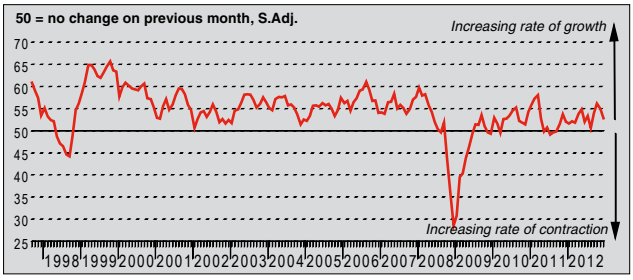


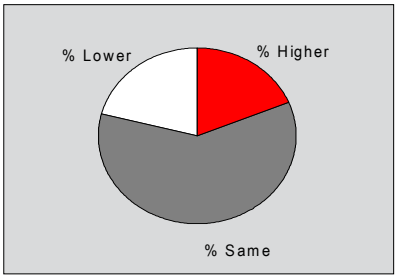


Manufacturers in Russia registered only a marginal rise in output in December. The rate of expansion in the latest period was the slowest since September 2011, and the joint-second weakest in the current 41-month sequence of growth. Moreover, the four-point month-on-month fall in the seasonally adjusted Output Index was the largest recorded since December 2008. Where output rose, this was linked to higher new orders, while falls were attributed to over-production in recent periods, or slowing demand.

New Orders Index

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

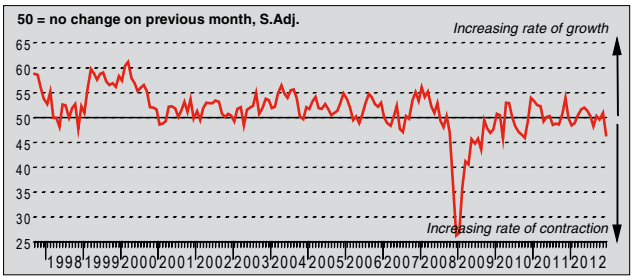


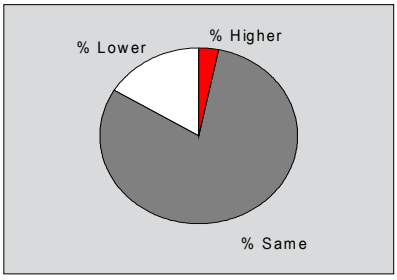


New orders received by Russian goods producers rose for the fifteenth successive month in December. Some firms reported large orders and demand from domestic markets. That said, the rate of expansion slowed since November, to the weakest since August. The seasonally adjusted New Orders Index was also below its long-run average during the latest period. New orders rose solidly in the intermediate and investment goods sectors, but only marginally at producers of consumer goods.

New Export Orders Index

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

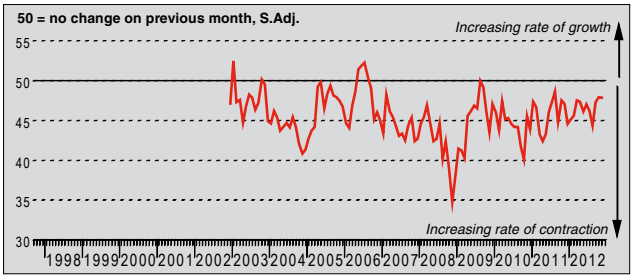


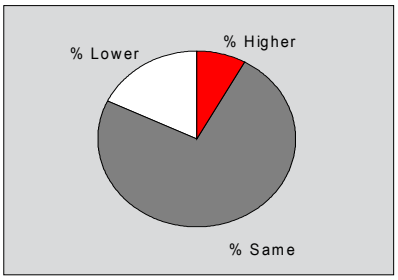


New business received from export markets declined at a robust pace in December. That followed a marginal rise in November. The seasonally adjusted New Export Orders Index fell sharply on the month, to the lowest since October 2010. New export business has fallen three times in the past five months. Data signalled a sharp fall in new export business at investment goods manufacturers.

Backlogs of Work Index

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

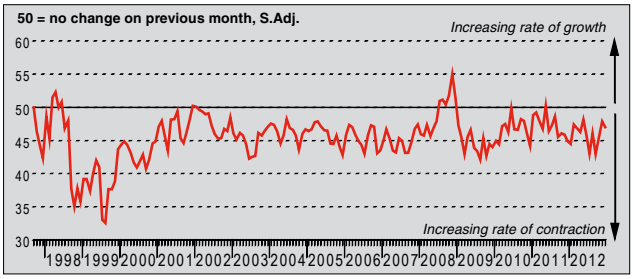


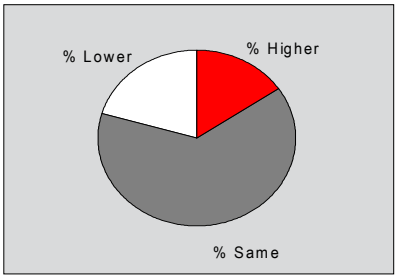


The seasonally adjusted Backlogs of Work Index remained below 50.0 in December and was little-changed from November's 14-month high. That indicated a further moderate decline in outstanding business at Russian goods producers. On a quarterly basis, the Index averaged 47.7 in Q4, the highest since Q3 2009. Nearly three-quarters of respondents reported no change in backlogs since one month previously. By sector, backlogs fell sharpest in the consumer goods industry.

Stocks of Finished Goods Index

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

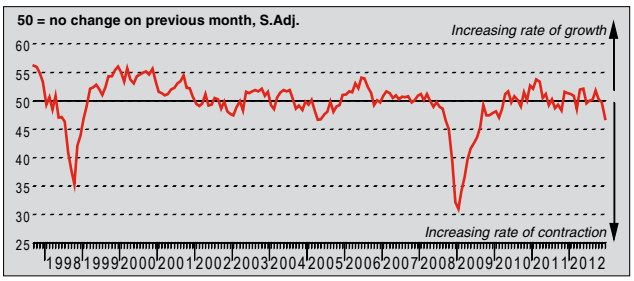


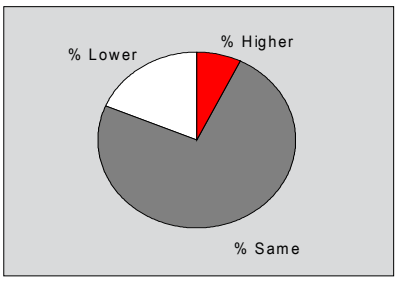


Goods producers in Russia continued to reduce their stocks of post-production goods in December. Destocking was linked to efforts to optimise warehouse capacity and shipments to clients. The rate of contraction accelerated slightly since November, but remained moderate. The seasonally adjusted Stocks of Finished Goods Index remained above its historic average during the latest period.

Employment Index

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

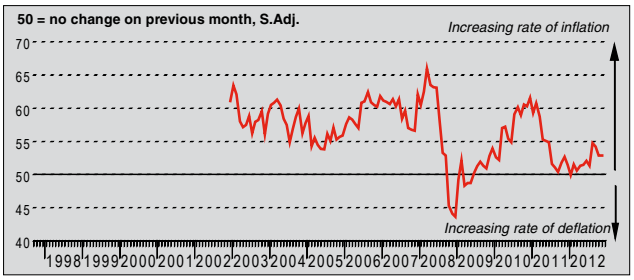


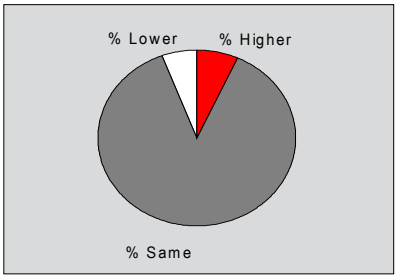


Russian manufacturers cut their workforces on average for the second month in a row in December. Moreover, having been only fractional in November, the rate of job shedding accelerated to the fastest since August 2009. Survey respondents mainly linked reductions in staff to weak inflows of new orders. Employment fell across all three broad sectors, with the fastest job shedding at intermediate 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.

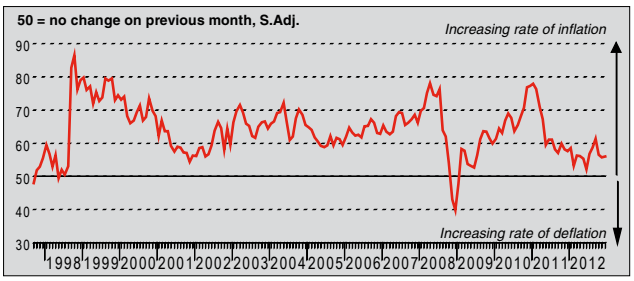


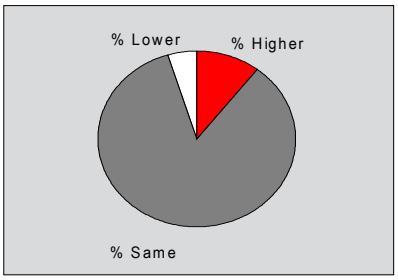


Pricing power at Russian manufacturers remained muted in December. Average prices levied for final manufactured goods rose, but at a rate unchanged from November's subdued pace. The seasonally adjusted Output Prices Index was well below its long-run average of 56.4. Where charges rose, this was partly linked to higher labour costs. The slowest increase in output prices was registered in the consumer goods sector.

Input Prices Index

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

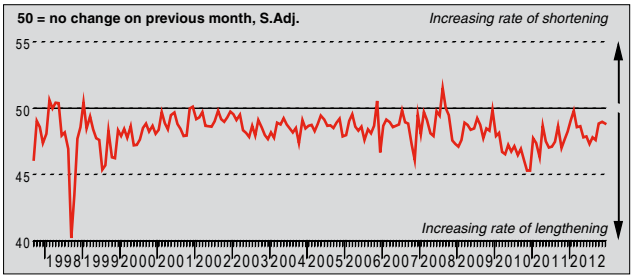


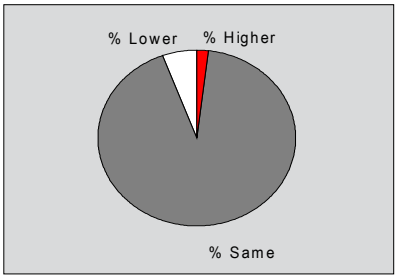


The seasonally adjusted Input Prices Index was little-changed from November's five-month low in December, signalling a relatively weak increase in cost pressures at Russian goods producers. Higher average input prices were partly linked to rising prices for foodstuffs. Input price inflation accelerated in the intermediate and investment goods sectors, and slowed sharply in the consumer goods sector.

Suppliers' Delivery Times Index

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

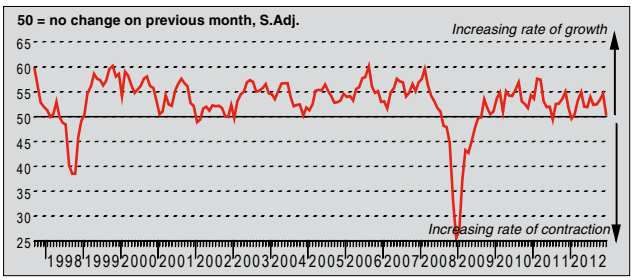


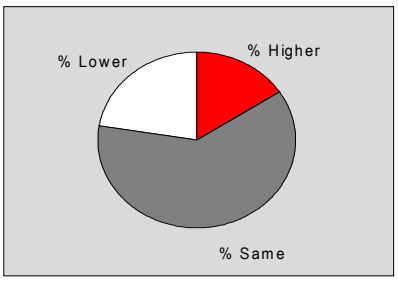


The average time taken to deliver inputs to Russian manufacturers lengthened further in December. The seasonally adjusted Suppliers' Delivery Times Index remained below the no-change mark of 50.0, but the latest figure signalled only a modest deterioration in vendor performance. Anecdotal evidence linked longer delivery times to delays at customs and suppliers that were unable to cope with demand. By sector, delays were again most common at investment goods producers.

Quantity of Purchases Index

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

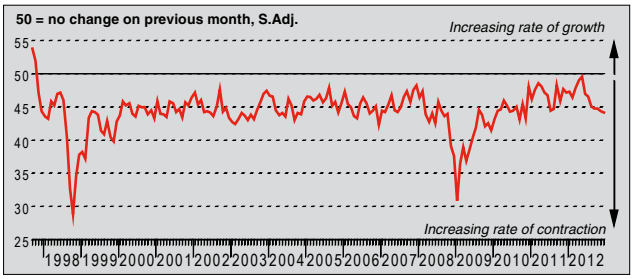


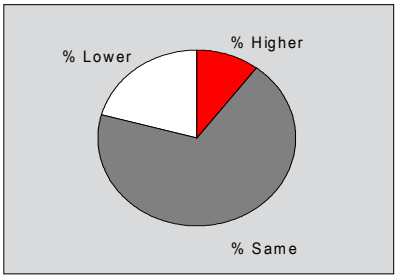


Purchasing activity in the Russian manufacturing sector rose only marginally in December. Latest data signalled the weakest rate of growth since February, when the current sequence of expansion began. Moreover, the month-on-month decline in the seasonally adjusted Quantity of Purchases Index was the second-largest in four years. Where purchasing fell, firms linked this to weak demand and efforts to control stock levels. Input volumes declined in the investment goods sector.

Stocks of Purchases Index

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





Pre-production inventories declined sharply in December, reflecting the near-stagnation in growth of input volumes. The seasonally adjusted Stocks of Purchases Index edged lower, to its weakest level since November 2010. Around 21% of survey respondents cut stocks of raw materials and other inputs during the month. All three sectors registered sharp declines in input stocks, with the steepest fall at investment goods producers.

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*™ (*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.

Warning