HSBC *Purchasing Managers' Index*™ 2013

compiled by markit

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HSBC Russia Manufacturing PMI®

New orders rise markedly at start of 2013

Key findings:

- New business expansion fastest in 22 months
- Backlogs rise slightly despite pick-up in output growth
- Weak inflation of input prices

Russia's manufacturers started 2013 in a better position than at the end of 2012, HSBC *PMI*® data compiled by Markit showed. Having slowed to a marginal rate in December, output growth accelerated on the back of a marked rise in new work. New export business stabilised and purchasing growth also picked up. The latest survey results also highlighted a further round of weak inflationary pressures in the goods-producing sector.

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 from December's 15-month low of 50.0, posting 52.0 in January. That was broadly in line with the long-run survey average (52.1), and indicative of a solid overall improvement in business conditions at goods producers in Russia. The rise in the PMI reflected upward movements in all five of its components, most notably new orders. That said, employment and stocks of purchases still exerted negative overall contributions to the headline figure.

Manufacturing output in Russia rose at a solid rate in January. Production has increased during every month since August 2009, and the latest pace of expansion was in line with the average shown over this period.

New orders received by Russian goods producers rose at the fastest pace since March 2011 at the start of 2013. This mainly reflected strong growth in domestic markets, although new export business stabilised following December's contraction. The overall rise in new work was greater than the long-run survey average.

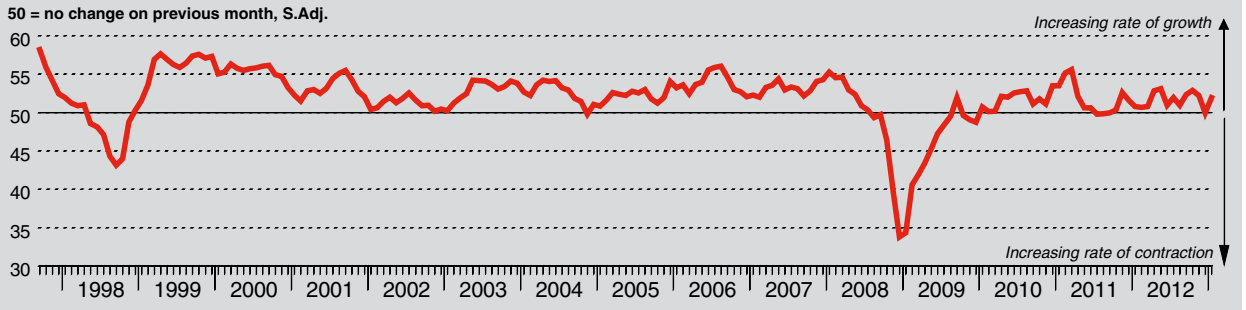
The sharp increase in new business generated growth of backlogs at Russian manufacturers in January. The overall volume of outstanding business in the sector rose for the first time since September 2006, albeit at a marginal pace.

The improvement in demand signalled by the marked rise in new orders also generated a stronger increase in purchasing volumes. That said, the overall rate of growth was moderate, as firms continued to run down warehouse levels.

The main negative from the latest survey was another fall in manufacturing employment, the third in successive months. Moreover, the rate of reduction in staffing was little-changed from December's 40-month record.

Inflationary pressures in the Russian goods-producing sector remained weak in January. Average input prices rose at the second-slowest rate in four years, and one that was much weaker than the survey's historic average. Where prices did increase, this was linked to higher energy and transport costs. Meanwhile, manufacturers increased their prices charged for the eleventh successive month, but at only a modest rate.

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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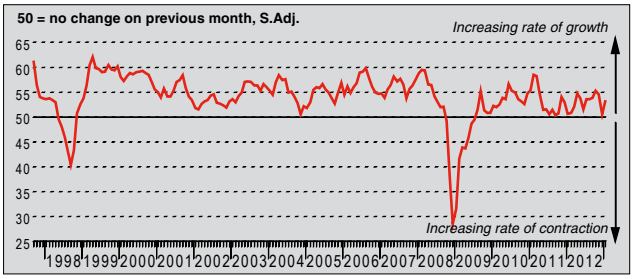
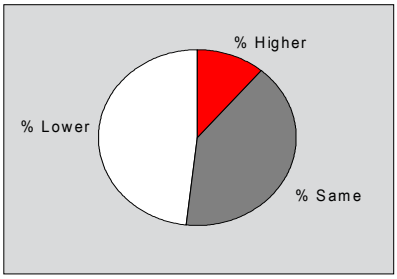
Output Index

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

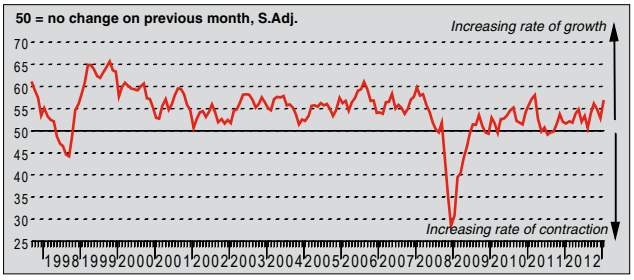


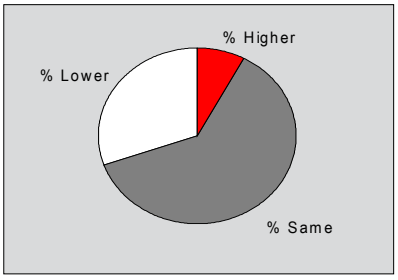


Output growth accelerated in January, having risen only marginally the previous month. Firms linked production growth to improving demand. The month-on-month increase in the seasonally adjusted Output Index was the first since October, and the latest figure signalled a robust rate of expansion. That said, it remained below the survey's historic average (54.2). Output rose sharply in the intermediate goods sector, contrasting with only a marginal gain in investment goods production.

New Orders Index

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

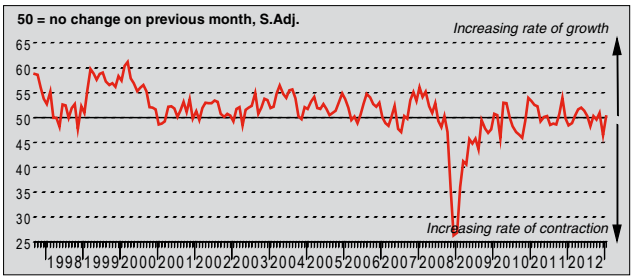


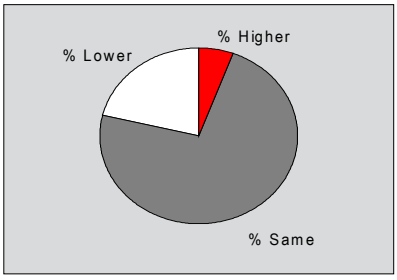


Manufacturing new orders in Russia increased sharply in January. The rate of growth was the fastest since March 2011, and extended the current sequence of expansion to 16 months. Moreover, the month-on-month increase in the seasonally adjusted New Orders Index was the largest since February 2009. A number of firms reported winning new clients during the month. Data signalled a rapid increase in new orders for consumer goods, as well as strong gains in both the intermediate and investment goods sectors.

New Export Orders Index

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

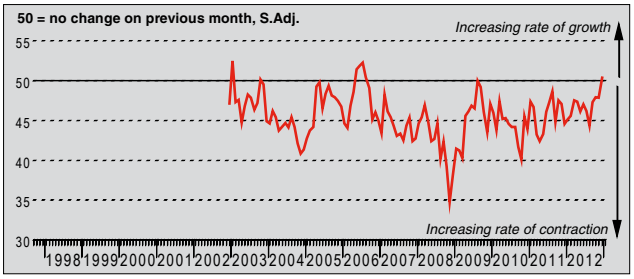


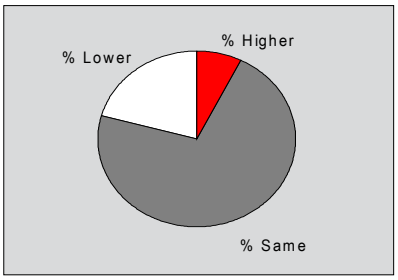


The seasonally adjusted New Export Orders Index rose just above the no-change mark of 50.0 in January, signalling a fractional increase in new export business received by Russian manufacturers. That contrasted with a sharp fall in December. New export orders have risen, albeit only marginally, three times in the past five months. Detailed data signalled that a decline in the investment goods sector nearly offset gains in the consumer and intermediate 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.

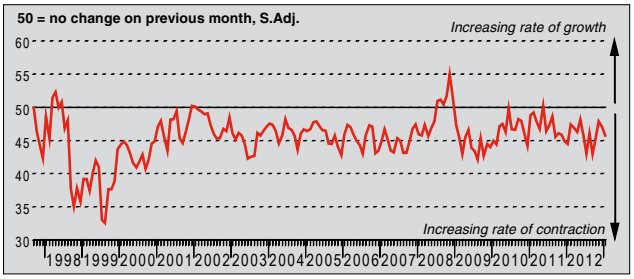


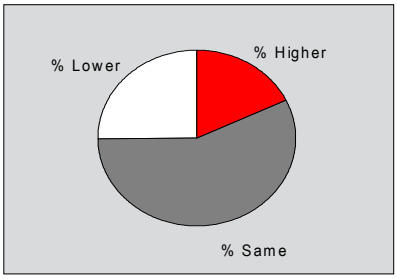


The overall level of outstanding business at Russian manufacturers increased in January. Backlog growth was only marginal but, nevertheless, the first expansion signalled by the survey data since September 2006. Survey respondents linked higher levels of incomplete work to increases in new business. Backlogs rose in the investment and consumer goods sectors, but fell at producers of intermediate goods.

Stocks of Finished Goods Index

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

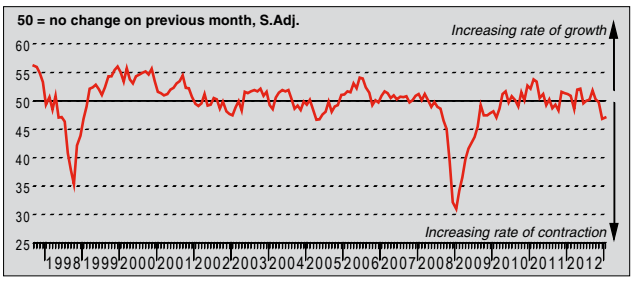


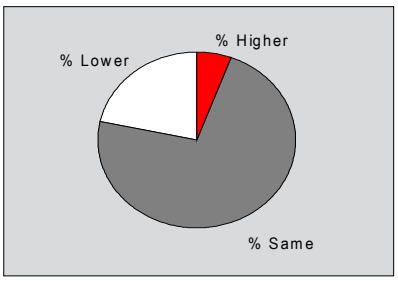


The seasonally adjusted Stocks of Finished Goods Index remained below the neutral mark of 50.0 in January, indicating further destocking by Russian manufacturers. The latest figure signalled a solid rate of decline, and was broadly in line with the trend shown over 2012 as a whole. Anecdotal evidence linked lower warehouse levels mainly to rising sales. All three sectors registered falls in final goods inventories, led by the investment goods sector.

Employment Index

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

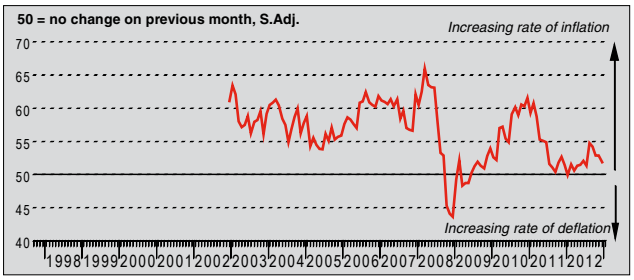


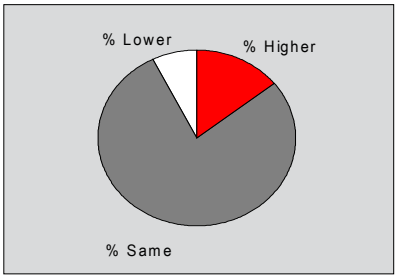


Russian manufacturers continued to reduce their headcounts at the start of 2013. Employment in the sector has fallen for three consecutive months, and the rate of job shedding was little-changed from December's 40-month record. All three areas of manufacturing registered declines in employment during the month, with the strongest cut seen 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.

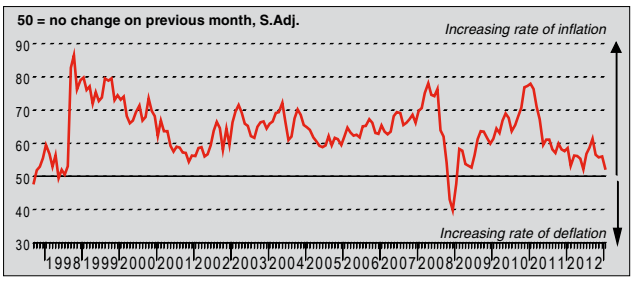


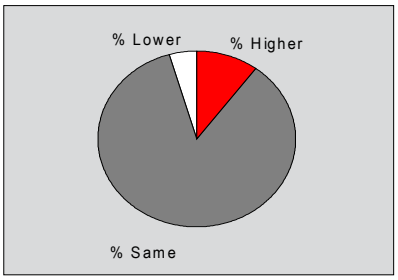


The rate at which manufacturers increased their charges slowed for the third time in four months in January. The rate of output price inflation was the weakest since last August, and well below the long-run survey average. Around 14% of survey respondents reported higher charges, linked mainly to rising costs for energy and transport. The weakest increase in output prices was signalled at consumer goods firms, and the strongest at manufacturers of investment goods.

Input Prices Index

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

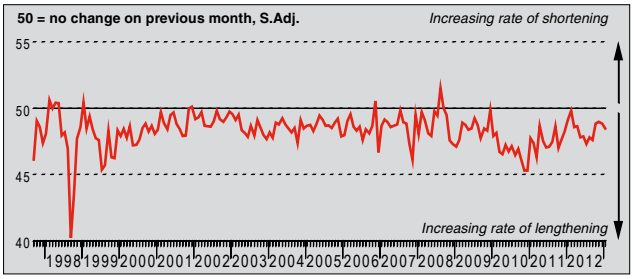


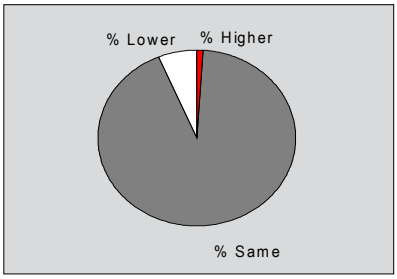


January data indicated a much weaker rise in average input prices paid by Russian goods producers. The rate of inflation was the slowest since June 2012, and the second-weakest in the current four-year period of rising input prices. Only one-in-ten survey respondents reported higher input prices than one month previously, attributed mainly to rising energy and transport costs. Input price inflation remained historically weak in all three sectors, with prices barely changed 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.

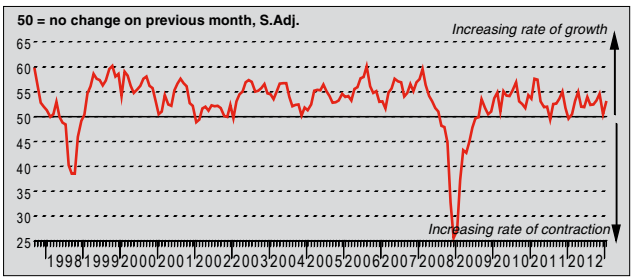


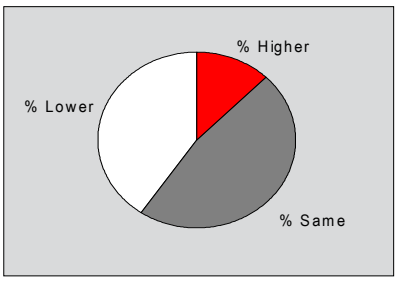


The seasonally adjusted Suppliers' Delivery Times Index remained below the no-change mark of 50.0 in January, signalling longer average times taken to deliver inputs to manufacturers in Russia. That said, the extent of the deterioration in supplier performance remained modest. Longer delivery times were evident in all three areas covered by survey data, with delays most frequent 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.

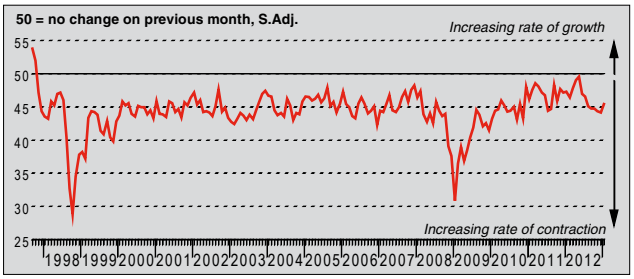


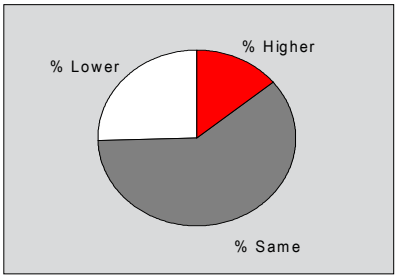


Growth of purchasing activity regained momentum in January, following December's near-stagnation. Purchasing volumes have risen throughout the past 12 months, and the rate of expansion in the latest period was broadly in line with the average over this sequence. Firms linked higher input volumes to new workloads and efforts to replenish stocks. Purchasing growth was strongest at producers of intermediate goods.

Stocks of Purchases Index

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





Pre-production warehouse levels at Russian manufacturers declined further in January, as signalled by the seasonally adjusted Stocks of Purchases Index remaining below the no-change mark of 50.0. Though sharp overall, the rate of contraction was the weakest since July 2012. The fastest fall in input stocks was registered at consumer goods producers, followed by intermediate goods manufacturers.

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