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HSBC Russia Manufacturing PMI®

New orders continue to grow strongly despite export weakness

Key findings:

- New business expansion remains sharp on back of domestic demand
- · New export orders stagnate
- · Jobs decline for fourth successive month

Growth momentum in the Russian manufacturing sector was broadly maintained in February, while inflationary pressures weakened further, HSBC *PMI*[®] data compiled by Markit showed. New orders rose at a strong rate, while growth of purchasing activity accelerated. Firms increased output but cut staffing slightly, suggesting productivity gains in the sector.

The survey's headline figure is the HSBC *Purchasing Managers'* $Index^{TM}$ (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 was unchanged from one month previously in February, posting 52.0. That was the sixteenth positive reading in the past 17 months, and broadly in line with the survey's historic average of 52.1. The new orders, output and suppliers' delivery times components all exerted positive, but weaker, influences on the headline figure in February, while the opposite was true for the remaining employment and stocks of purchases components.

Manufacturing new order growth eased slightly in February, but remained strong. The current sequence of expansion now stretches to 17 months, and the rate of growth in the latest period was the third-fastest over this cycle. Data indicated that domestic markets drove new business growth, as new export orders stagnated during the month, continuing the flat underlying trend

shown since the second half of last year.

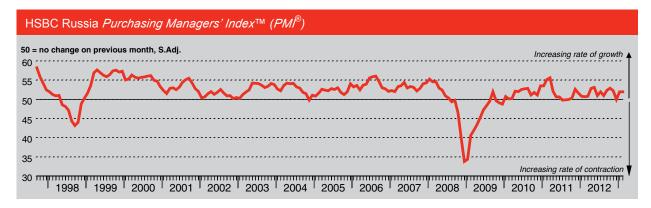
Manufacturing output registered another moderate increase in February, at a rate that was slightly weaker than in the opening month of 2013 and broadly in line with the average for 2012. Meanwhile, backlogs of work were unchanged, having risen in January for the first time since September 2006.

Russian goods producers prepared for new business by increasing their purchases of new inputs at the fastest rate since November. The pace of growth was also stronger than the long-run survey average. Despite this, suppliers' delivery times lengthened at a less marked rate during the month.

Stocks of purchases fell at the weakest rate in nine months in February, while final goods inventories continued to contract sharply.

Manufacturers in Russia cut employment levels on average in February, extending the current sequence of job shedding to four months. This is the longest spell of the past three years, although the rate of decline in the latest period was only marginal.

Input prices paid by Russian goods producers rose at the weakest rate since June 2012. The rate of inflation also remained much lower than the historic survey average. Meanwhile, prices charged for final goods fell slightly during the month, the first reduction since February 2012.



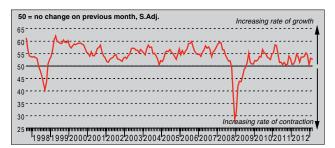
The HSBC Russia $Purchasing\ Managers'\ Index^{TM}\ (PMI^0)$ is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in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

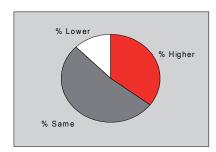




Output Index

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

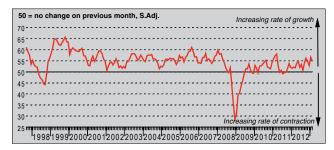


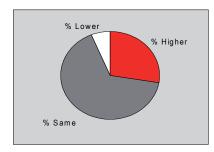


Manufacturing production in Russia increased in February, as signalled by the seasonally adjusted Output Index remaining above the nochange mark of 50.0. The Index signalled a moderate rate of growth, falling slightly since January to a level broadly in line with the trend shown during 2012. Firms linked higher output to new orders and new products. Output growth was strongest in the investment goods sector

New Orders Index

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

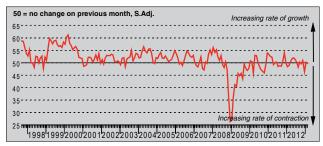




The volume of new business received by Russian manufacturers increased for the seventeenth consecutive month in February. The pace of expansion eased from January's 22-month record, but was still sharp overall and the third-fastest in the current sequence. Firms reported winning business in domestic markets and increasing client numbers. New order growth was fastest at producers of consumer goods, followed by the intermediate goods sector.

New Export Orders Index

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

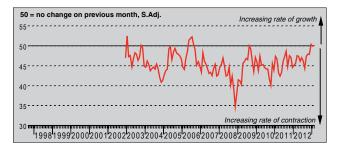




February survey data signalled a stagnation in new export business in the Russian goods-producing sector. The seasonally adjusted New Export Orders Index has oscillated around the 50.0 no-change mark since last July, although the rate of contraction signalled by the latest figure was only marginal, in contrast to December's 26-month record. Declining new export orders in the investment and intermediate goods sectors offset moderate growth at producers of consumer goods.

Backlogs of Work Index

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

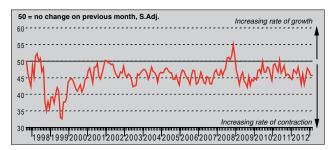


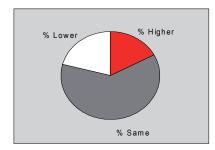


Backlogs of work at Russian manufacturers were unchanged in February, as signalled by the seasonally adjusted Index equalling the no-change threshold. Reflecting this, 81% of survey respondents reported no change in the level of incomplete work at their units since January. The reduction contrasted with a marginal rise at the start of 2013, which was the first increase registered since September 2006. Growth in backlogs at investment goods producers was offset by declines in both the consumer and intermediate goods sectors.

Stocks of Finished Goods Index

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



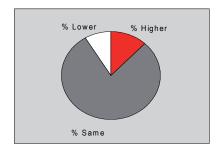


Warehouse stocks of finished goods in the Russian manufacturing sector declined at a marked rate in February, with the seasonally adjusted Index little-changed from January. The latest figure was broadly in line with the long-run survey average. Inventories have declined, on average, every month since June 2011. Declining finished goods inventories were broad-based across all three market group sectors.

Employment Index

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

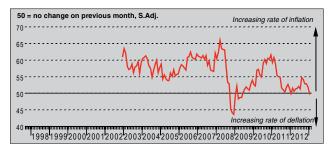


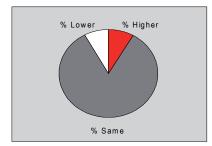


Manufacturing employment in Russia declined for the fourth successive month in February. That marked the longest sequence of contraction in three years. The rate of job shedding was, however, only marginal, and the slowest since November. Sector data suggested that job creation at consumer goods firms was more than offset by cuts to headcounts in the intermediate 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.

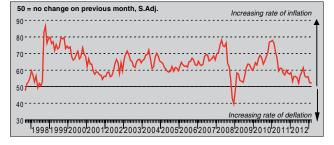


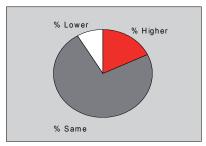


Prices charged for final manufactured goods declined in February. The seasonally adjusted Output Prices Index fell below the no-change mark of 50.0 for the first time since February 2012, although the latest figure indicated only a fractional reduction in factory gate prices. Around 84% of the survey panel reported no change in tariffs since January. Discounting was reported at 8% of firms, partly linked to lower metal prices. The overall fall in charges masked a slight rise at consumer goods firms.

Input Prices Index

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

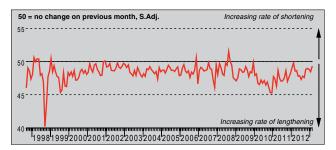


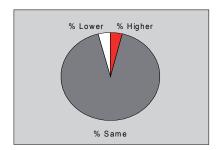


Cost pressures facing Russian goods producers remained weak in February. The seasonally adjusted Input Prices Index edged lower, to its second-lowest level in 49 months of readings above the no-change mark of 50.0. Around 18% of firms reported higher input prices, linked mainly to rising costs for fuel and energy. Input price inflation was strongest in the consumer goods sector, and weakest 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.

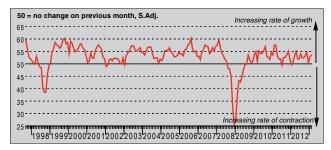


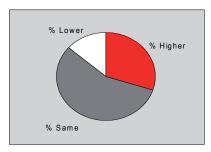


The performance of vendors supplying Russian manufacturers deteriorated in February, but only marginally. Only 4% of firms reported longer delivery times for inputs, while 92% reported no change in times since January. Some firms reported shortages of high quality inputs at vendors, while others reported delays with imports.

Quantity of Purchases Index

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

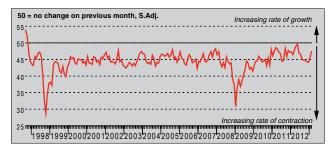


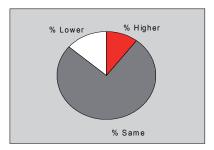


The seasonally adjusted Quantity of Purchases Index remained above the no-change mark for the thirteenth month in succession in February, signalling growth of input buying by Russian goods producers. The rate of expansion was the fastest since November, and slightly stronger than the long-run survey average. Purchasing growth strengthened in the consumer and investment goods sectors, but slowed at intermediate goods firms.

Stocks of Purchases Index

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





The level of pre-production stocks held in the Russian manufacturing sector fell further on average in February. Where inventories declined, at close to 14% of firms, anecdotal evidence linked this to uncertain order book outlooks, delivery delays and shortages of working capital. The overall rate of contraction was, however, the slowest since May 2012.

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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