Embargoed until: 09:00 (MOSCOW), 3 June 2013

# HSBC Russia Manufacturing PMI®

Russian manufacturing sector close to stagnation in May

# Key findings:

- Output growth slows to negligible pace, despite rise in new orders
- Inflationary pressures remain muted
- · Jobs cut for seventh successive month

Business conditions in the Russian manufacturing sector barely improved mid-way through the second quarter, HSBC  $PMI^{\circledcirc}$  data compiled by Markit showed. Although new orders continued to rise and export demand stabilised, output growth slowed to a fractional rate and firms cut staff for the seventh month in a row. Input buying was broadly unchanged from one month previously, while a rise in final goods stocks was registered for the first time since May 2011. Meanwhile, inflationary pressures remained subdued.

The survey's headline figure is the HSBC *Purchasing Managers' Index*<sup>TM</sup> (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 in May but slid further towards the neutral threshold, registering 50.4, from 50.6 in April. That was the third successive month-on-month decline in the Index, signalling a loss of growth momentum in the Russian manufacturing sector. Weighing on the headline index in May was a further drop in employment and a near-stagnation in output growth, as well as an ongoing sharp fall in stocks of purchases.

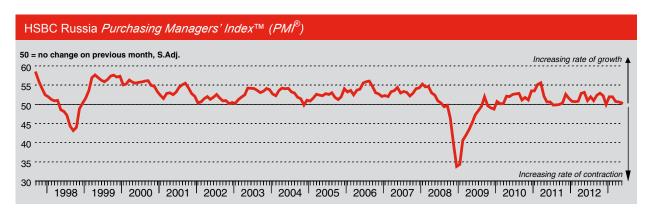
The main positive finding from the latest survey was a rise in

new business received by Russian manufacturers, extending the current sequence of expansion to 20 months. There was a stabilisation in export demand in the latest period, although the overall rise in new work was the slowest in nine months, and still weak in the context of historic survey data.

Although new business growth was maintained in May, output levels rose only fractionally and at the weakest pace in the current 46-month sequence of expansion. This near-stagnation in production partly reflected a build-up of finished goods inventories across the sector for the first time in two years during May. Meanwhile, the volume of inputs purchased by manufacturers was largely unchanged from April.

Russian manufacturing employment declined for the seventh month running in May, but the rate of reduction was only moderate. Declining employment partly reflected spare capacity in the sector, as signalled by a third successive monthly drop in backlogs of work.

Average input prices paid by Russian manufacturers rose in May at the strongest pace in 2013 so far, but the rate of inflation remained much weaker than the long-run survey trend. Where input prices rose, this was linked to higher energy and transport costs. Output prices rose marginally in May, reversing April's slight reduction.



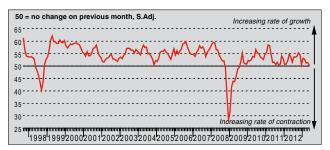
The HSBC Russia  $Purchasing\ Managers'\ Index^{TM}\ (PMI^0)$  is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in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

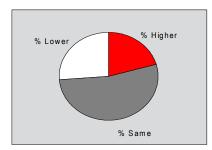




# **Output Index**

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

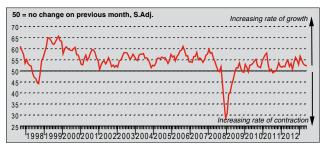


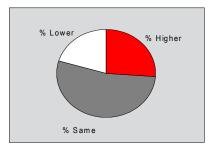


The seasonally adjusted Output Index moved closer to the no-change threshold in May, signalling a near-stagnation in growth of Russian manufacturing production. The latest figure indicated a fractional rate of expansion, and the slowest seen over the current 46-month sequence of growth. Output growth was largely driven by the investment goods sector, while a flat trend was indicated for consumer goods and production of intermediate goods declined.

#### New Orders Index

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

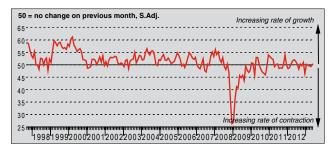


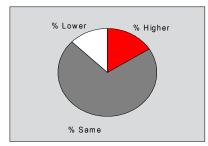


New orders received by Russian goods producers continued to grow in May. A number of firms reported expanded customer bases. The current sequence of growth now stretches to 20 months. That said, the rate of expansion slowed for the fourth month running, to the weakest since last August. New orders rose solidly in the consumer and investment goods sectors, but fell 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.





The volume of new export orders received by Russian manufacturers was little-changed from one month previously, as signalled by the seasonally adjusted New Export Orders Index registering close to the neutral threshold. This followed a three-month period of marginal declines. Where new export work rose, at 16% of respondents, this was usually linked to new clients. The consumer goods industry registered a marked increase in new business from export markets.

# Backlogs of Work Index

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

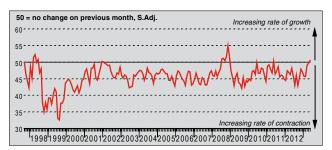


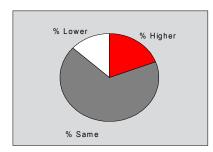


The volume of outstanding business in the Russian goods-producing sector declined for the third month running in May. The seasonally adjusted Backlogs of Work Index was higher than in April, however, signalling a weaker rate of depletion, and was above its long-run average. Backlogs fell sharply at intermediate goods producers, but rose 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.

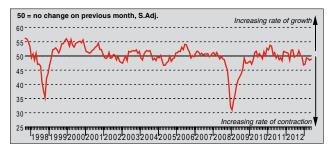


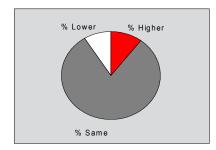


Survey data indicated an overall rise in post-production inventories at Russian manufacturers. The seasonally adjusted Stocks of Finished Goods Index rose above the no-change mark of 50.0 for the first time since May 2011, but indicated only a marginal rate of expansion. Higher stock levels in the consumer and intermediate goods sectors were almost offset by a drop in the investment goods sector.

#### **Employment Index**

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

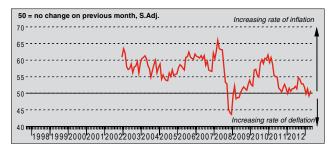


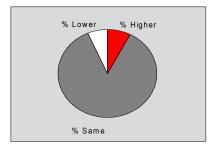


Manufacturing employment in Russia continued to decline in May. The seasonally adjusted Employment Index remained in negative territory for the seventh consecutive month, although the latest figure indicated only a modest rate of job shedding. Some firms linked lower staffing during the month to stalled production in the face of weak order inflows. The consumer goods sector bucked the overall trend, registering employment growth.

# 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.





Factory gate prices rose slightly in May, having declined marginally one month previously. This continued the broadly flat underlying trend of the past four months, and signalled a lack of pricing power at Russian manufacturers. Around 86% of survey respondents reported no change in their tariffs during the latest period. Only 8% of firms reported higher charges, linked to increased input prices. Higher charges were mostly confined to the investment and consumer goods sectors.

# Input Prices Index

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

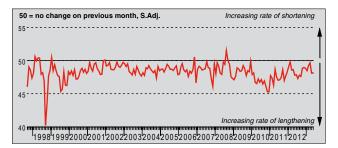


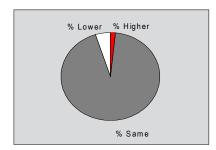


The seasonally adjusted Input Prices Index edged up in May to its highest level in 2013 so far, but still indicated an historically weak rate of input cost inflation in the Russian manufacturing sector. Firms reported increased energy and transport costs. Price pressures were similarly muted across all three market group sectors.

# Suppliers' Delivery Times Index

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

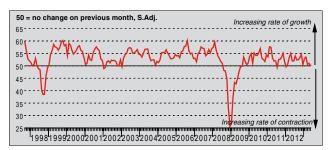


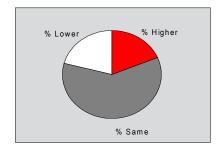


Suppliers' delivery times lengthened further in May. The seasonally adjusted Suppliers' Delivery Times Index was little-changed from April, indicating another modest rate of lengthening. Pressure on vendors was moderate across all three market group sectors. Around 5% of firms reported delays from suppliers during the month.

#### Quantity of Purchases Index

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

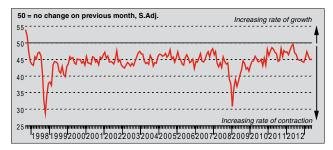


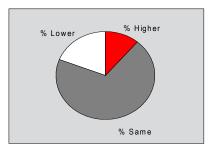


The volume of inputs purchased by Russian goods producers was virtually unchanged in May since one month previously. The seasonally adjusted Quantity of Purchases Index was close to the neutral level, following a 15-month period of positive readings. Where purchases rose, this was linked to higher production and efforts to rebuild stocks.

# Stocks of Purchases Index

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





In line with the pattern shown throughout much of the survey history, the overall level of inputs held in stock at Russian manufacturers declined in May. The rate of contraction remained strong and was little-changed from April. The strongest decline was registered in the investment goods sector, and the weakest in the intermediate goods industry.

# 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<sup>TM</sup> (PMI<sup>®</sup>) 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

The intellectual property rights to the HSBC Russia Manufacturing PMI provided herein is owned by Markit Economics Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data.  $Purchasing Managers' Index^{\mathbb{M}}$  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.