HSBC *Purchasing Managers' Index™* 2013

compiled by markit

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HSBC Russia Manufacturing PMI®

June sees strongest improvement in manufacturing business conditions in four months

Key findings:

- PMI rises for first time since January
- Solid rate of new order growth
- Employment increases for first time in eight months

The business climate facing Russian goods producers improved in June, HSBC *PMI*® data compiled by Markit showed. New business and output both increased at faster rates, leading to a rise in employment in the sector for the first time since last October. Input and output prices both rose at the strongest rates of 2013 so far, but inflationary pressures remained historically 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. It is derived from indicators for new orders, output, employment, suppliers' delivery times and stocks of purchases. Readings above 50.0 indicate an overall improvement in business conditions, below 50.0 an overall deterioration.

The PMI remained above the no-change mark of 50.0 in June, continuing the trend shown since the start of 2013. Moreover, the headline figure rose to a four-month high of 51.7, from 50.4 in May, signalling a stronger overall improvement in business conditions facing goods producers.

The positive PMI reading in June was underpinned by four out of five components. The exception was stocks of purchases, although its negative impact was lower than in May.

The main factor driving the improvement in manufacturing performance in June was a stronger increase in new orders. The rate of new business expansion accelerated for the first time since the start of the year, and was the fastest since February. Domestic demand drove the improvement, while new export orders rose marginally for the second month running. By sector, consumer goods firms registered the strongest increase in new orders.

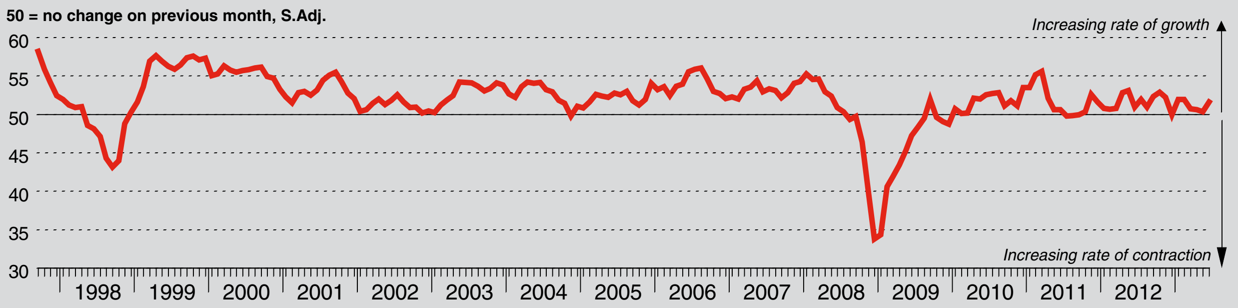
Russian manufacturing production rose in June, extending the current sequence of growth to nearly four years. The rate of expansion accelerated to a four-month high, but remained weak compared with the long-run survey average.

Faster growth of output and new orders was accompanied by a sharper increase in the volume of inputs ordered by manufacturers. The rate of expansion was the fastest since February, although the overall volume of inputs held in stock in the sector continued to fall.

Russian goods producers expanded their workforces on average in June, ending a seven-month sequence of job shedding. That said, the rate of employment growth was only marginal.

Average input prices rose at the fastest rate in six months in June, linked to higher metal prices and currency fluctuations. The rate of inflation remained weak in the context of historic survey data, however. A similar trend was evident for output price inflation, which accelerated to a six-month high but remained historically modest.

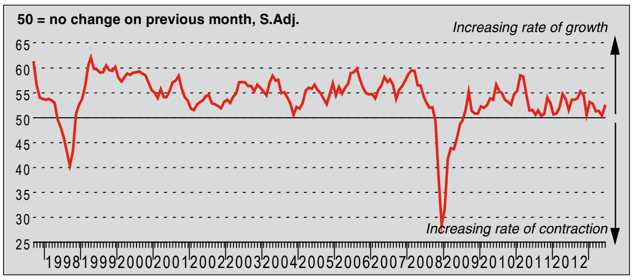
HSBC Russia *Purchasing Managers' Index™ (PMI®)*

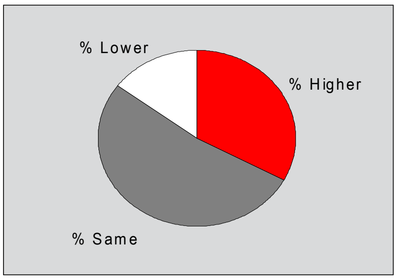


The HSBC Russia *Purchasing Managers' Index™* (*PMI*®) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output,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

Output Index

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

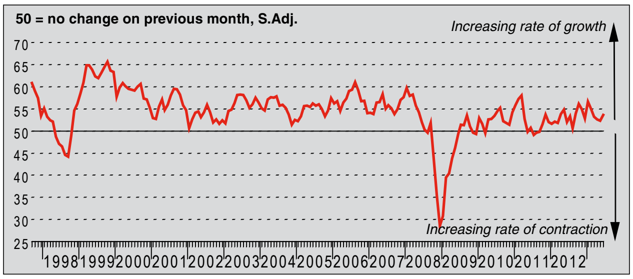


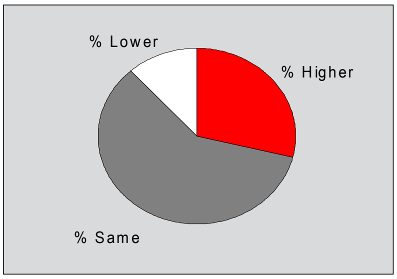


The rate of growth in Russian manufacturing output picked up in June, having slowed to a marginal pace one month previously. The seasonally adjusted Output Index improved to a four-month high, but remained lower than its long-run average of 54.1. The current sequence of expansion now stretches to nearly four years. Production growth was broad-based across the three market group sectors, led by a solid increase in intermediate goods output.

New Orders Index

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

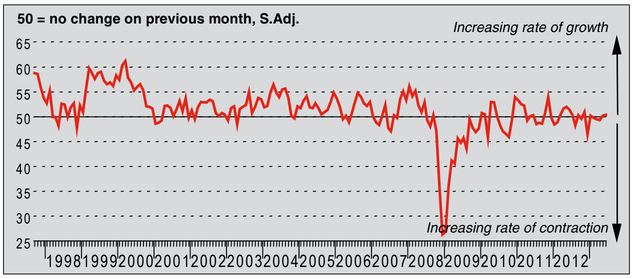


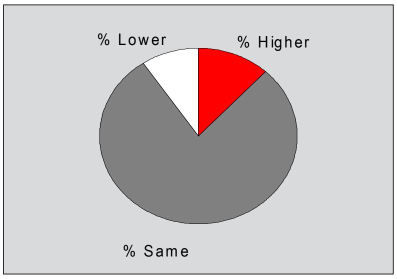


New business growth at Russian goods producers accelerated in June. The seasonally adjusted New Orders Index rose to a four-month high, signalling a solid rate of expansion that was broadly in line with the average over the past 12 months. A number of firms reported improving domestic demand, while new products were also highlighted as sources of new order growth. The consumer goods sector posted the strongest rise in new business volumes in June.

New Export Orders Index

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

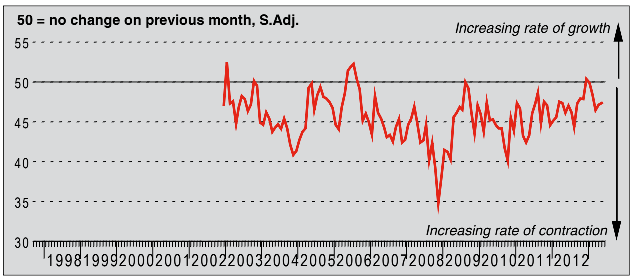


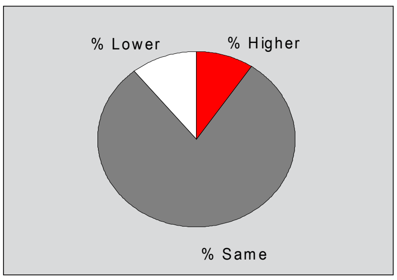


The seasonally adjusted New Export Orders Index remained above the neutral threshold of 50.0 for the second month running in June, marking the first back-to-back rise in new export business in 11 months. That said, the rate of expansion signalled remained marginal. Anecdotal evidence partly linked new business from international markets to new clients and new products. Sector data signalled that export growth was centred on the consumer goods industry, as producers of intermediate and investment goods both recorded declines.

Backlogs of Work Index

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

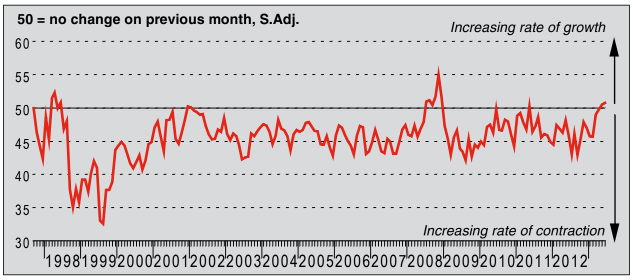


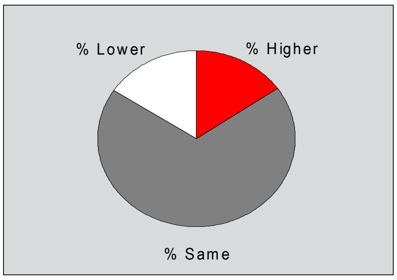


Spare capacity in the Russian manufacturing sector was evident in June, as output growth remained relatively modest. Backlogs of work declined for the fourth month running, albeit at a moderate pace. Declining volumes of incomplete work were mainly linked to higher output and efficiency improvements. Backlogs rose in the consumer goods sector, but fell sharply 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.

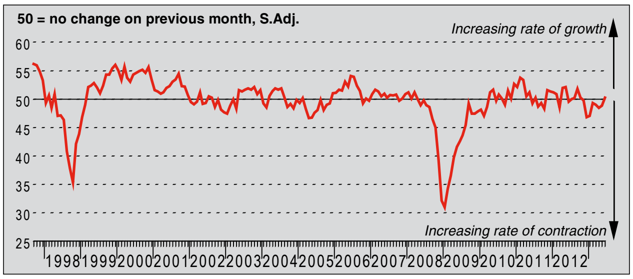


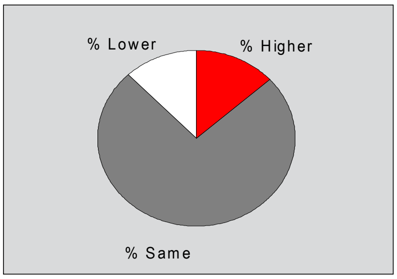


The volume of finished goods held in stock at Russian goods producers increased for the second month running in June, although the rate of expansion remained only marginal. The seasonally adjusted Stocks of Finished Goods Index was only slightly above the no-change mark of 50.0, but well above its historic average of 45.6. Higher warehouse stocks were linked to new products, lower than expected sales and expectations of big orders.

Employment Index

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

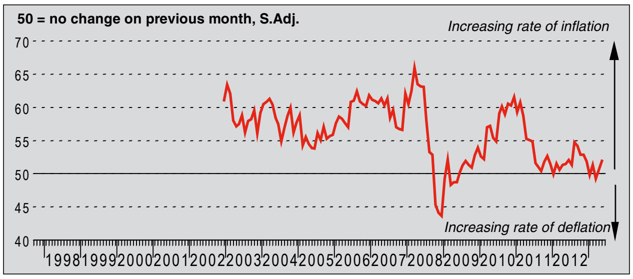


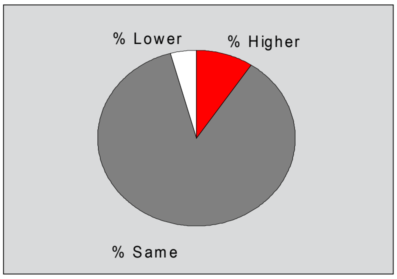


Manufacturing employment in Russia increased in June, following a seven-month sequence of job shedding. Around 13% of firms reported raising staff levels during the month, although the overall rate of growth was only marginal. The main reason given for additional recruitment was higher production, although there was also mention of sales support and the opening of new branches. Jobs increased in the consumer and investment goods sectors, but fell in the intermediate goods sector.

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.

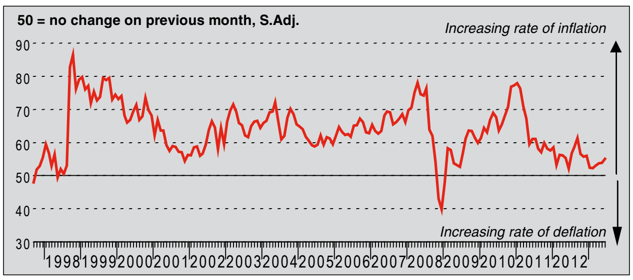


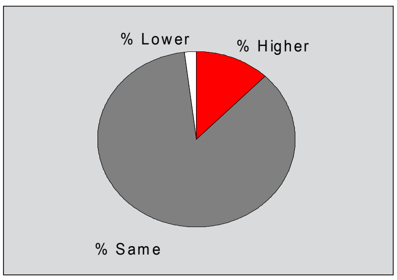


Factory gate prices in the Russian manufacturing sector rose for the second month running in June. The rate of output price inflation accelerated to a six-month high, but remained weak in the context of historic survey data. Firms linked higher output prices to rising input costs, the need to improve profitability and the introduction of new products. The acceleration in the overall rate of output price inflation mainly reflected a stronger rise in prices charged by consumer goods manufacturers.

Input Prices Index

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

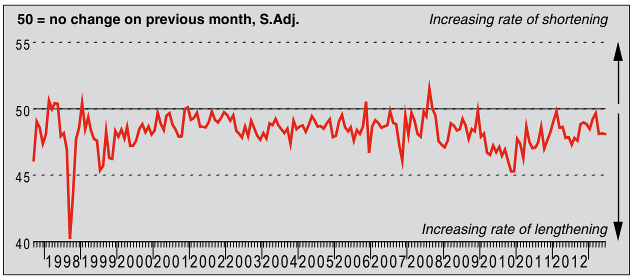


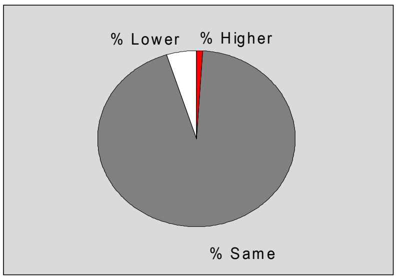


Input price inflation continued to pick up in June, but remained weak in the context of the survey history. The seasonally adjusted Input Prices Index edged up for the fourth successive month to its highest since last December, but remained well below its long-run trend level of 63.7. Anecdotal evidence partly attributed greater cost pressures to exchange rate fluctuations and higher metal prices. Input price inflation was strongest 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.

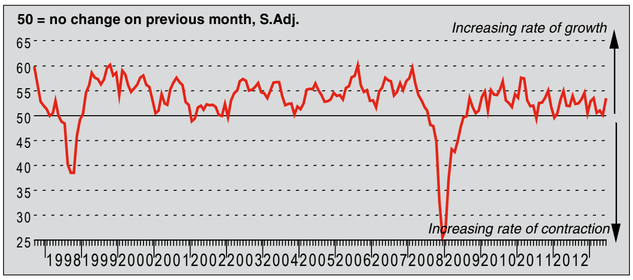


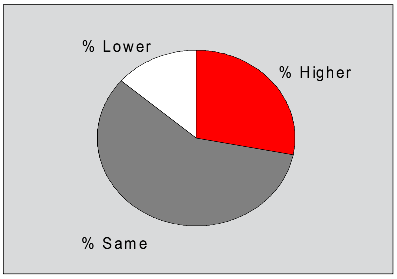


The seasonally adjusted Suppliers' Delivery Times Index was broadly unchanged for the second month running in June, indicating a further moderate rate of lengthening in the time taken to deliver inputs to Russian manufacturers. Around 5% of survey respondents reported delays, linked to problems at suppliers and railway maintenance. Longer lead times were most common in the intermediate goods sector.

Quantity of Purchases Index

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

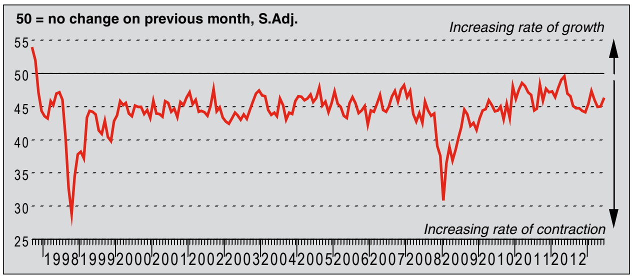


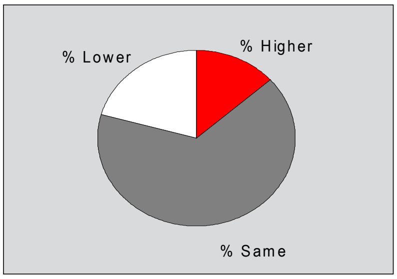


The volume of inputs purchased by Russian goods producers rose for the seventeenth month running in June. The rate of expansion was solid, and the seasonally adjusted Quantity of Purchases Index improved to a four-month high. The latest figure was also slightly higher than the long-run survey average of 52.9. Higher input volumes were mainly linked to rising production.

Stocks of Purchases Index

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





Russian manufacturers' stocks of raw materials and semi-finished inputs declined on average in June. The rate of contraction was solid, but the slowest for four months. Lower inventory levels were primarily linked to increased production. Around 21% of firms reported lower input stocks than in May.

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