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HSBC Russia Manufacturing PMI®

Russian manufacturing business conditions deteriorate in July

Key findings:

- PMI dips below 50.0 no-change mark for first time since August 2011
- Flat trend in new orders results in lower output
- New export order growth picks up to 14-month high

The business climate facing Russian goods producers worsened at the start of the second half of the year, HSBC PMI® data compiled by Markit showed. A stagnation in new orders led to the first drop in manufacturing output in four years, while firms cut staff at the fastest rate in six months. Manufacturers also lowered input buying volumes for the first time in a year-and-a-half, and July saw a third successive monthly increase in post-production inventories. Contrary to the overall decline in new orders, the volume of new export business rose at the fastest rate in 14 months.

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 fell below the no-change mark of 50.0 in July, posting 49.2, down from June's four-month high of 51.7. It was the first negative reading since August 2011, and the lowest figure since December 2009. The three main components of the headline index – new orders, output and employment – all exerted negative influences in July, as did stocks of purchases. This was offset to some extent by the strongest contribution from suppliers' delivery times in ten months.

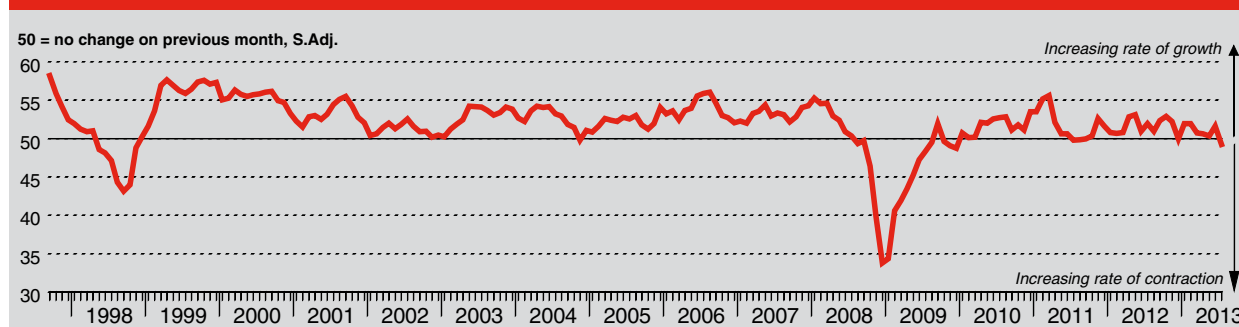
Central to the overall deterioration in Russian manufacturing business conditions in July was a flat trend in new orders. This ended a 21-month sequence of expansion, and followed the fastest increase in four months in June. Data signalled that the domestic market was the main source of weakness, as new export business rose for the third month running and at the strongest rate since May 2012.

A lack of incoming new work in July led to a drop in production, the first such decline since July 2009. Meanwhile, backlogs fell for the fifth month running, and at the strongest rate since September 2012. Employment declined for the eighth time in nine months as a result, and at the strongest rate since January.

In response to the weakening in market conditions, goods producers cut their input buying for the first time since January 2012. Moreover, the rate of decline was the strongest in just over four years. Input inventories continued to contract, but at the slowest rate in five months. In contrast, stocks of final goods rose for the third month running, the second-longest sequence in the 16-year survey history.

Input prices rose at the fastest rate in seven months, linked to exchange rate pressures and higher prices for energy. That said, the overall rate of inflation remained historically weak. Output price inflation also hit a seven-month high, but remained modest overall.

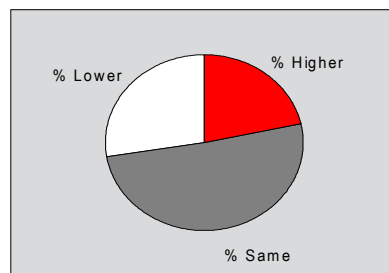
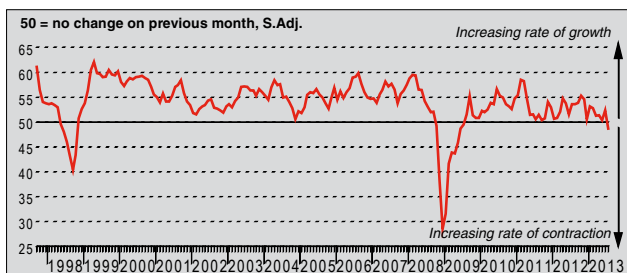
HSBC Russia *Purchasing Managers' Index*™ (PMI®)



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

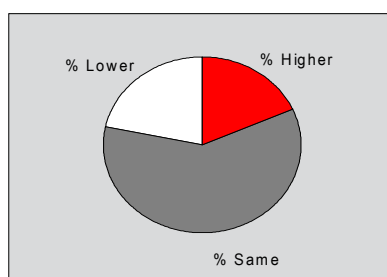
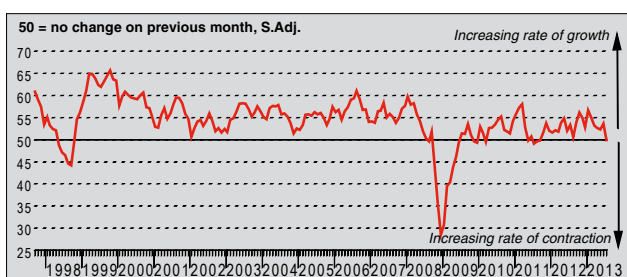
Q. Please compare your production/output this month with the situation one month ago.



Having increased at the strongest rate in four months in June, the level of Russian manufacturing output declined in July. The seasonally adjusted Output Index fell below the no-change mark of 50.0 for the first time in four years, although the latest figure indicated only a modest rate of contraction. Anecdotal evidence linked lower production to weakening demand, and a lack of working capital at clients. By sub-sector, output fell at both intermediate and consumer goods producers, but rose modestly in the investment goods sector.

New Orders Index

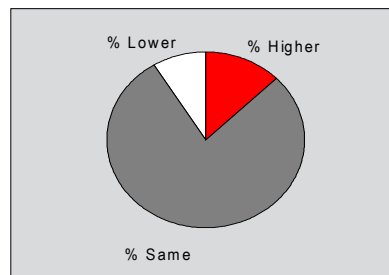
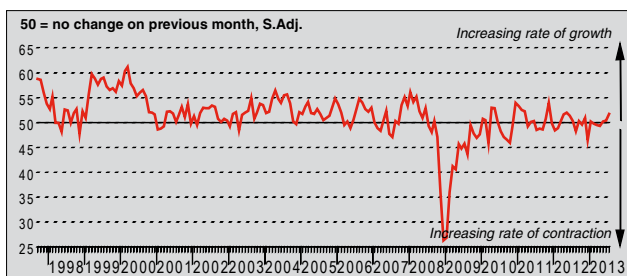
Q. Please compare the level of new orders received this month with the situation one month ago.



The volume of new orders received by Russian manufacturers was broadly unchanged in July compared with one month previously. That ended a 21-month sequence of expansion and followed the strongest increase in four months in June. A number of firms reported slowing market conditions and a drop in demand for their products. New orders declined sharply at intermediate goods producers, but rose in both the consumer and investment goods sectors.

New Export Orders Index

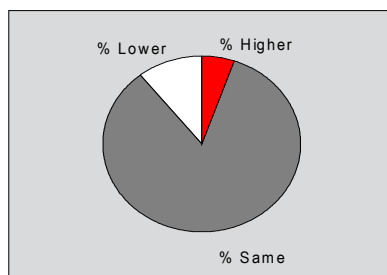
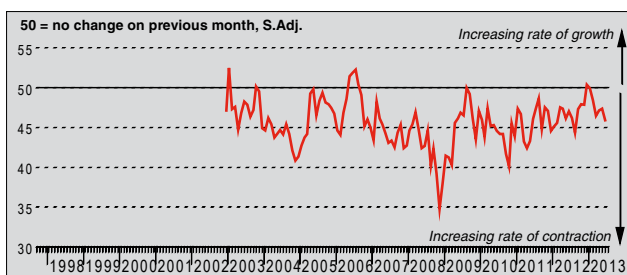
Q. Please compare the level of new export orders received this month with the situation of one month ago.



In contrast to the overall decline in new orders during July, the volume of new work received from export markets increased during the month. The seasonally adjusted New Export Orders Index remained above the no-change mark of 50.0 for the third month running, and signalled the fastest rate of expansion since May 2012. Some firms mentioned higher new business levels from eastern European markets. Consumer goods firms bucked the overall trend, registering a modest fall in new export orders.

Backlogs of Work Index

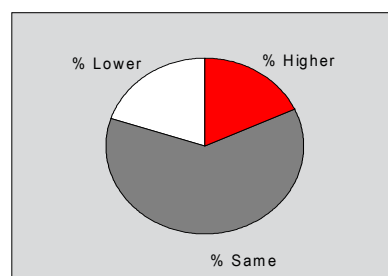
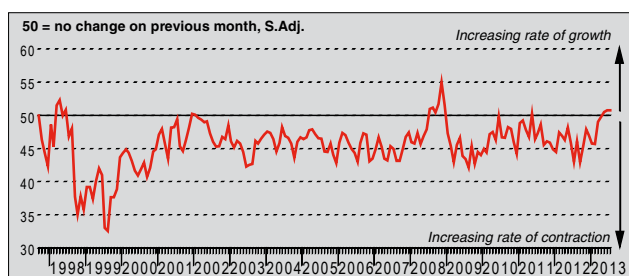
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



The level of outstanding business held in the Russian manufacturing sector declined in July, in line with the trend shown since March. Moreover, the seasonally adjusted Backlogs of Work Index fell on the month, and indicated the fastest rate of depletion since September 2012. Lower backlogs were either linked to weakening new order inflows or improvements to productivity. Backlogs of work declined across all three sub-sectors, with the steepest drop signalled at intermediate goods producers.

Stocks of Finished Goods Index

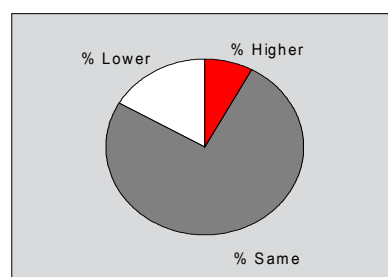
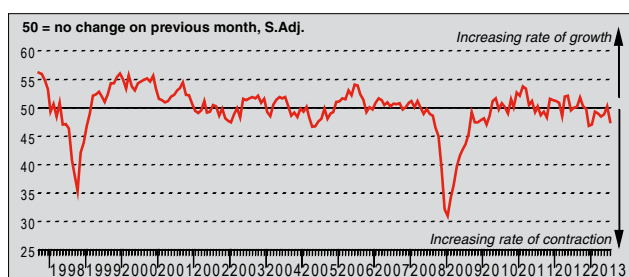
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Russian manufacturers' inventories of finished goods rose for the third month running in July. The rate of growth remained weak, but the current sequence of stockbuilding in the sector is the second-longest in the survey history, behind that recorded over the second half of 2008. Survey respondents mainly linked the build-up of final goods to a drop in sales demand. The intermediate and consumer goods sectors were the main sources of rising finished goods inventories.

Employment Index

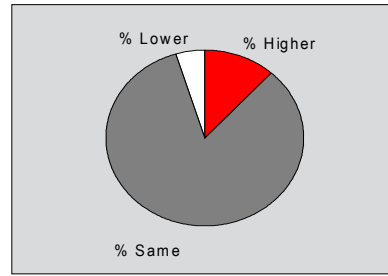
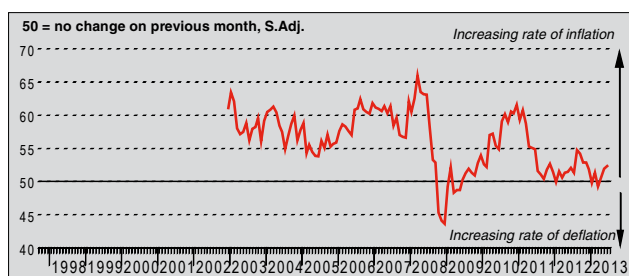
Q. Please compare the level of employment at your unit with the situation one month ago.



Russian manufacturing employment declined in July, having increased slightly the previous month. Staffing in the sector has now fallen eight times in the past nine months. Moreover, the rate of job shedding in the latest period was the fastest since January. Lower employee numbers were mainly attributed to declining production. All three sectors registered lower workforce numbers, and similar rates of reduction.

Output Prices Index

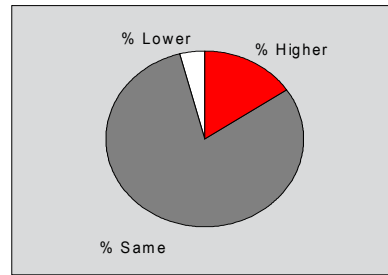
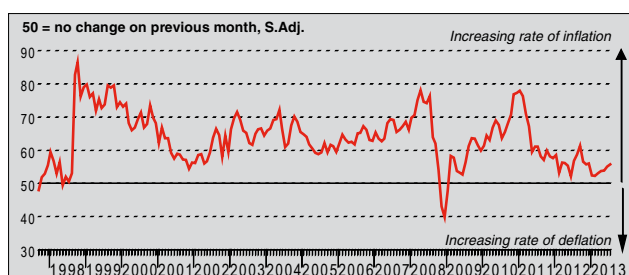
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Russian goods producers increased their output prices for the third month in a row in July. Around 12% of survey respondents reported raising their charges, and the overall rate of inflation accelerated to the sharpest in 2013 so far. That said, the seasonally adjusted Output Prices Index remained well below its long-run average of 56.2. Consumer goods firms registered the strongest increase in output prices during the latest period, and investment goods firms the weakest.

Input Prices Index

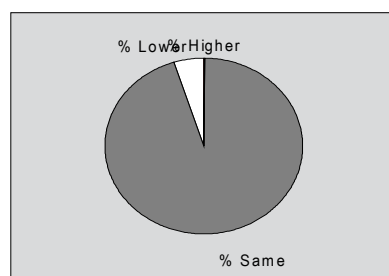
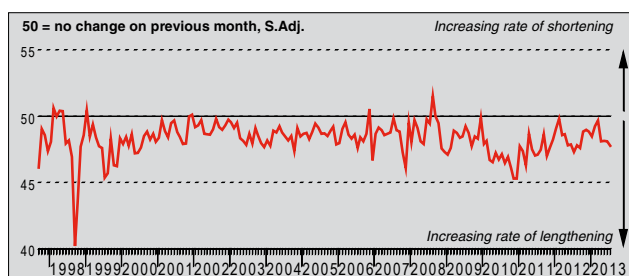
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



The rate of input price inflation in the Russian goods-producing sector accelerated to a seven-month high in July. A number of firms reported that movements in exchange rates had resulted in higher average input prices, while there was also mention of higher prices for energy and textiles. That said, the rate of inflation remained historically weak, as signalled by the seasonally adjusted Input Prices Index remaining well below its long-run survey average of 64.0. Input cost inflation was strongest in the intermediate goods sector.

Suppliers' Delivery Times Index

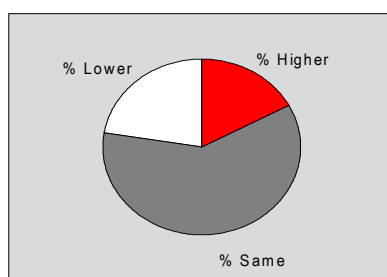
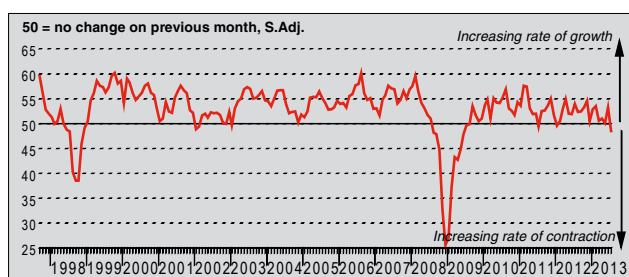
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Suppliers' delivery times lengthened on average in July. Moreover, the rate of deterioration in vendor performance was the sharpest for ten months. Delays were most common in the investment goods sector. Anecdotal survey evidence suggested that traffic disruption and import delays had contributed to longer supplier delivery times during the month.

Quantity of Purchases Index

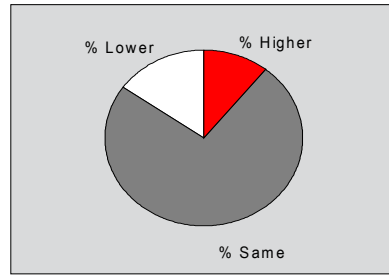
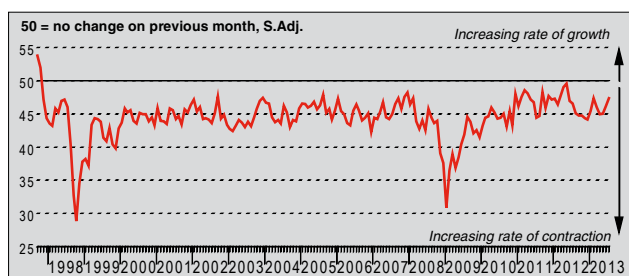
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Lower output requirements and a stagnation in new business inflows led Russian manufacturers to cut the volume of new inputs purchased in July. The seasonally adjusted Quantity of Purchases Index fell below the no-change mark of 50.0 for the first time since January 2012, and the latest figure indicated the fastest rate of contraction since June 2009. The intermediate goods sector drove the overall decline, with a marked contraction offsetting growth in both the consumer and investment goods sectors.

Stocks of Purchases Index

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



The seasonally adjusted Stocks of Purchases Index remained below the no-change mark of 50.0 in July, signalling an overall decline in holdings of pre-production goods in the Russian manufacturing sector. Around 15% of survey respondents reported lower input stocks, compared with 11% that registered growth. The strongest fall was signalled in the consumer goods sector.

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*TM (*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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