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HSBC Russia Manufacturing PMI®

Output growth resumes in August, but at weak rate

Key findings:

- Modest rise in new work driven by domestic market as exports stagnate
- Fastest drop in employment in four years
- Headline PMI remains below 50.0 for second month running

The downturn in overall conditions in Russia's manufacturing economy continued in August despite a pick-up in output, HSBC PMI® data compiled by Markit showed. New orders rose modestly, but new export orders stagnated and employment in the sector declined at the fastest rate in four years. Input price inflation hit a ten-month high, but remained weaker than the long-run survey average.

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 below neutrality in August, rising fractionally from 49.2 to 49.4. This signalled a further marginal overall deterioration in business conditions in the Russian goods-producing sector. The latest negative reading mainly reflected the employment component, which hit a four-year low. Stocks of purchases also exerted a stronger negative influence, while suppliers' delivery times was fractionally negative. In contrast, output and new orders both provided slightly positive contributions to the headline figure.

The volume of new orders received by Russian manufacturers

rose slightly in August, driven by the domestic market. That followed a stagnation in July, although the resumption in growth was muted. This partly reflected a broadly flat trend in new export business during the month.

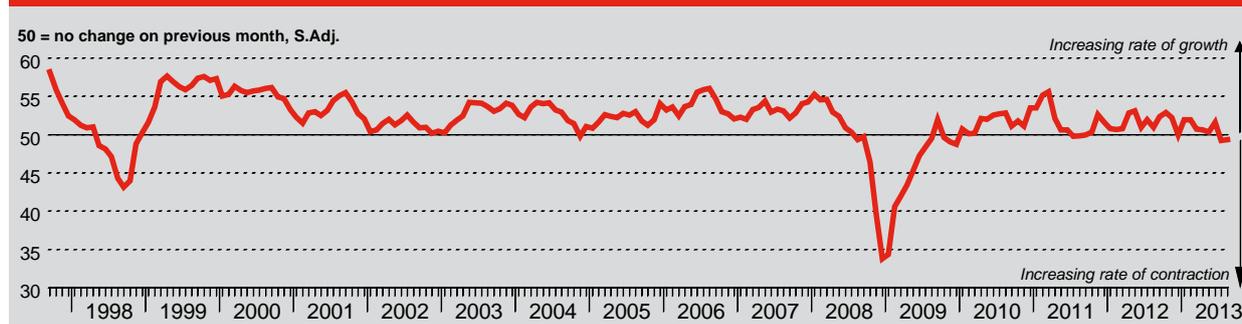
The weak rise in new orders generated a marginal increase in output. That followed a modest decline the previous month which was the first contraction in four years. Data signalled that the consumer goods sector drove the overall increase.

Backlogs of work declined for the sixth consecutive month in August, highlighting a lack of pressure on manufacturing capacity. Moreover, the rate of contraction was the fastest since September 2012.

With backlogs falling sharply amid weak new order growth, manufacturers in Russia cut their workforce numbers for the ninth time in ten months. The rate of job shedding accelerated to the fastest in four years. Meanwhile, growth of input purchasing resumed following July's decline.

Input price inflation accelerated slightly in August, continuing the trend shown since March. Firms reported higher prices for imported items alongside upward pressure on energy, utility and fuel costs. That said, the rate of input cost inflation remained historically weak. Meanwhile, prices charged for final manufactured goods continued to rise at a moderate rate.

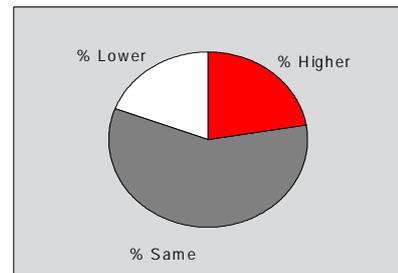
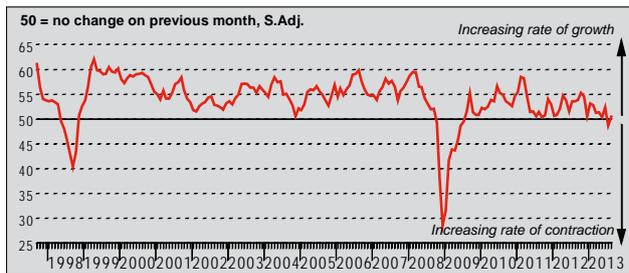
HSBC Russia Purchasing Managers' Index™ (PMI®)



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.

Output Index

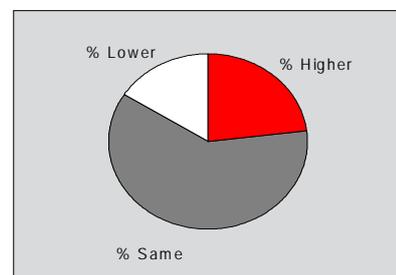
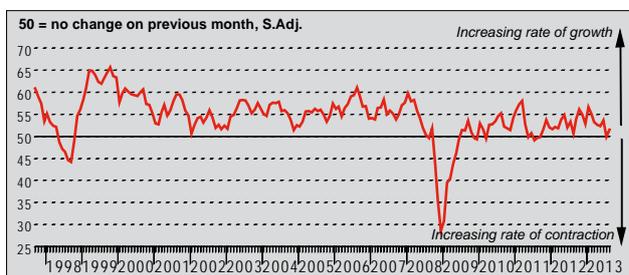
Q. Please compare your production/output this month with the situation one month ago.



Manufacturing production in Russia increased in August. That followed a modest decline in July, the first contraction registered in four years. Firms mainly linked higher output to rising new order inflows. Growth of production was centred on the consumer goods industry, as output fell in the investment goods sector and was flat at intermediate goods producers. Subsequently, the overall rate of output growth was only marginal.

New Orders Index

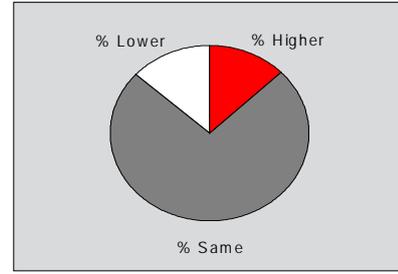
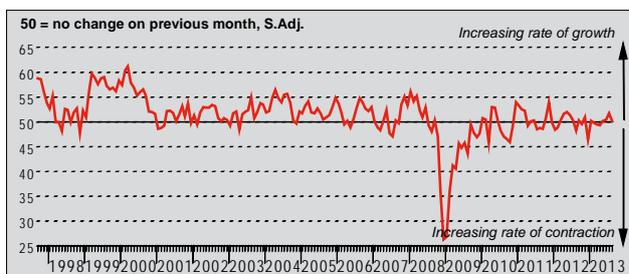
Q. Please compare the level of new orders received this month with the situation one month ago.



The volume of new orders received by Russian manufacturers increased in August, having been unchanged in July. New business rose in two sectors, with investment goods firms registering a slightly faster increase than consumer goods producers. A marginal decline was registered in the intermediate goods sector. The seasonally adjusted New Orders Index signalled only a modest overall rate of expansion, and remained well below its long-run survey average of 54.5.

New Export Orders Index

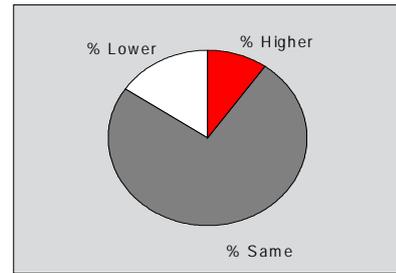
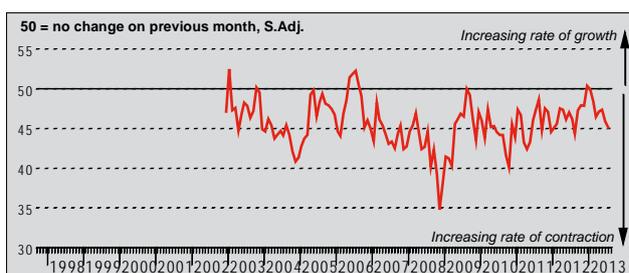
Q. Please compare the level of new export orders received this month with the situation of one month ago.



New export business in the Russian manufacturing sector was broadly unchanged in August compared with one month previously. That followed a three-month sequence of muted growth. Where new business from export markets fell, this was linked to challenging market conditions, while higher new export orders reflected the winning of new customers and development of new markets. Marginal growth of new export business was registered in the consumer and investment goods sectors, offsetting a decline at producers of intermediate goods.

Backlogs of Work Index

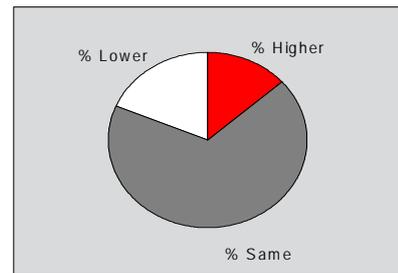
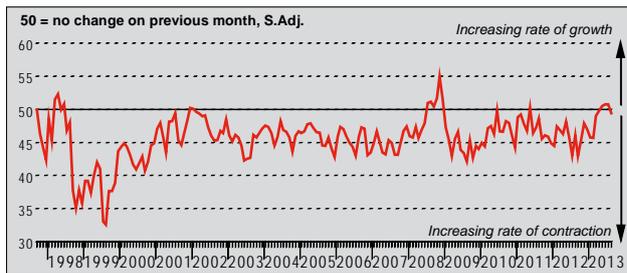
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



The volume of outstanding business in Russia's manufacturing sector declined sharply in August. The current sequence of backlog depletion now stretches to six months. Moreover, the seasonally adjusted Backlogs of Work Index declined for the second month running to an 11-month low. Backlogs fell in all three main sectors, with the fastest contraction seen in investment goods.

Stocks of Finished Goods Index

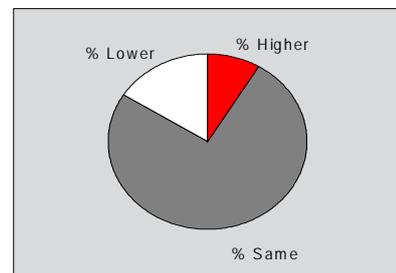
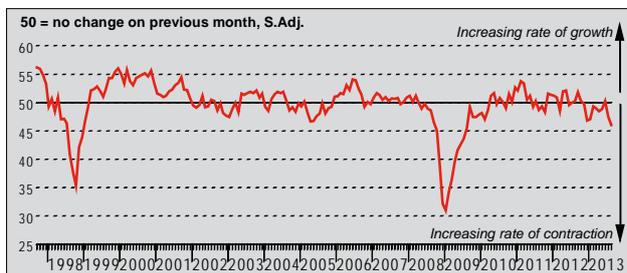
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



The seasonally adjusted Stocks of Finished Goods Index registered below the 50.0 no-change mark for the first time in four months in August, signalling a reduction in post-production inventories at Russian manufacturers. Firms mainly linked lower stock levels to improving sales demand. The overall reduction was driven by the intermediate goods sector, as the other two sectors posted increases. Consequently, the overall rate of reduction was only marginal.

Employment Index

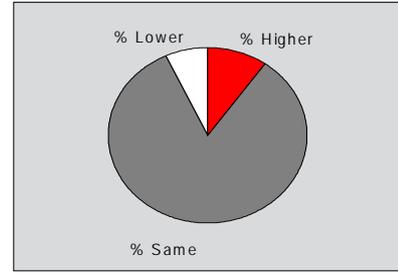
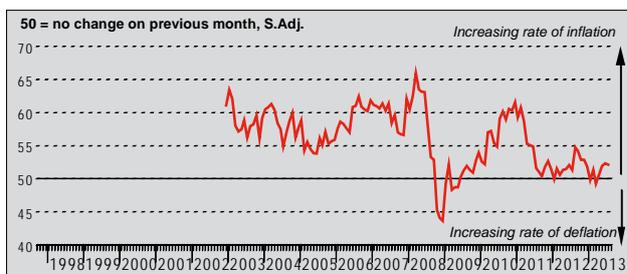
Q. Please compare the level of employment at your unit with the situation one month ago.



Russian goods producers continued to shed staff on average in August. Manufacturing employment has declined nine times in the past ten months. Moreover, the seasonally adjusted Employment Index declined on the month, and the latest figure indicated the strongest rate of job shedding in four years. All three broad sectors registered declining staff levels, with the fastest drop seen at investment goods firms.

Output Prices Index

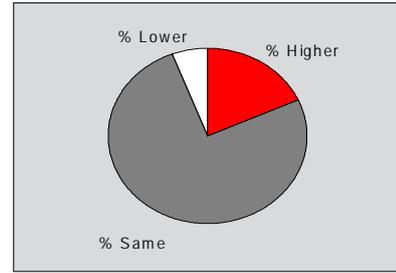
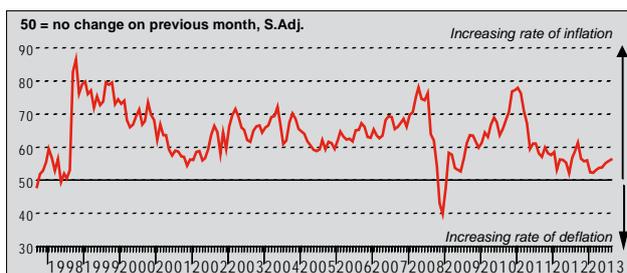
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Prices charged by manufacturers in Russia rose for the fourth month running in August. The rate of inflation remained moderate, and weak in the context of historic survey data. Around 10% of survey respondents reported higher output prices in August, linked to rising input and energy costs. Movements in exchange rates were also reportedly a contributing factor. Prices charged for consumer goods rose strongly, while only a marginal increase was seen in the intermediate goods sector.

Input Prices Index

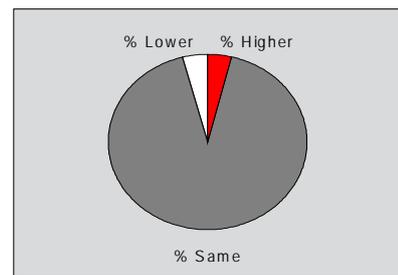
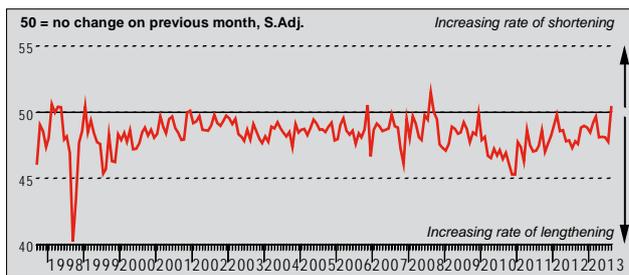
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Cost pressures facing Russian manufacturers continued to pick up gradually in August, but remained weak in the context of historic survey data. The seasonally adjusted Input Prices Index rose for the sixth month running to the highest since October 2012. But it remained well below its long-run trend level of 63.6. Many firms reported that the weaker ruble had raised the price of imported items. Fuel, utilities and energy prices were also reported to have risen in price.

Suppliers' Delivery Times Index

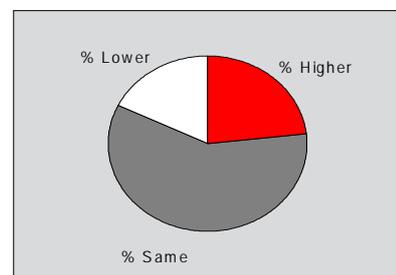
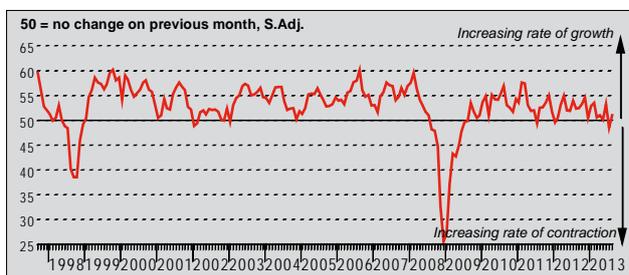
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



The seasonally adjusted Suppliers' Delivery Times Index rose above the no-change mark of 50.0 in August, indicating an overall improvement in supplier performance across the Russian manufacturing sector. The reduction in lead times was the first signalled by the survey data since August 2008. Similar trends in suppliers' delivery times were evident across all three broad sectors.

Quantity of Purchases Index

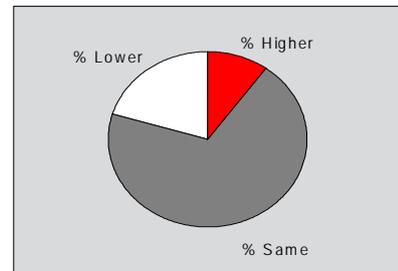
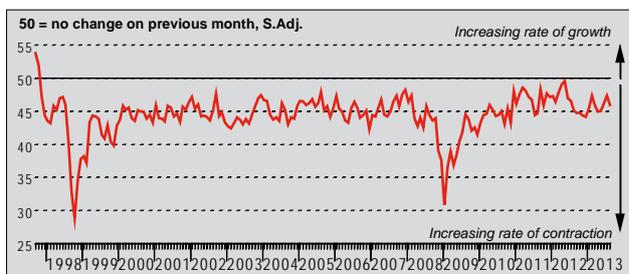
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Growth of purchasing activity resumed in August, following July's modest contraction. Firms mainly linked higher input volumes to rising new business. That said, the seasonally adjusted Quantity of Purchases Index signalled only a weak rate of expansion. Consumer goods firms registered a strong increase in purchasing activity, while a further decline was indicated at intermediate goods producers and broadly no change was signalled in the investment goods sector.

Stocks of Purchases Index

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



Stocks of purchases at Russian manufacturers declined on average in August. Data signalled the fastest rate of contraction in three months. Firms linked declining warehouse levels to higher production and a lack of new purchases. The fastest reduction in input inventories was registered in the intermediate goods sector, and the weakest at consumer goods producers.

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 *Index*TM (*PMI*[®]) 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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