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HSBC Russia Manufacturing PMI®

Output growth strengthens to 12-month high

Key findings:

- Faster expansion in production driven by rebound in domestic new orders
- New export business declines at fastest rate in over four years
- · Overall business conditions improve for first time in four months

The Russian manufacturing sector registered improving business conditions in October driven by a resurgence in domestic demand, $PMI^{\tiny{(0)}}$ data from HSBC showed. The volume of new orders rose at the fastest rate in eight months, leading to the strongest growth of output in a year. Weak export inflows continued to weigh on the sector, however, contracting at the fastest rate in over four years. Manufacturers also continued to cut workforces on average, and their pricing power remained

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 rose above the no-change mark of 50.0 in October, having spent the entire third quarter in negative territory. The latest figure of 51.8 was slightly below the survey's long-run average of 52.0, and indicative of a moderate overall improvement in business conditions. Moreover, the one-month gain in the PMI was the joint-fourth highest since the survey began in September 1997. The upward movement in the headline figure mainly reflected faster growth of new orders and

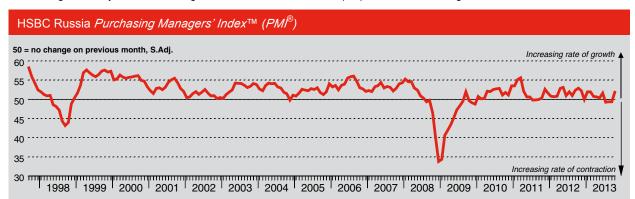
output, and a slower fall in employment.

Having slowed to a marginal pace in September, the rate of expansion in Russian manufacturing new orders accelerated sharply to an eight-month high in October. This was largely driven by domestic demand, as new export business fell for the second month running and at the fastest rate since August 2009. The overall rate of growth in total new work was broadly in line with the survey's long-run average in the latest period.

The rebound in new orders led to a stronger increase in output in October. Production rose at the fastest pace in 12 months, following only marginal growth in August and September. The rate of expansion was also faster than the long-run survey average.

The volume of outstanding work continued to decline in October, in a sign of ongoing spare capacity. Reflecting this, manufacturers cut headcounts on average for the fourth month in a row, albeit at the weakest rate over this sequence. Meanwhile, purchasing activity rose at a stronger rate in response to increased output requirements.

Input price inflation eased for the first time in eight months in October, and remained historically weak. The ability of manufacturers to raise their own prices was also limited, as output prices rose on average at the slowest rate in five months.



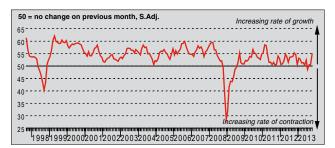
The HSBC Russia *Purchasing Managers' IndexTM (PMI*) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output,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

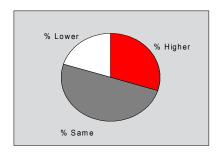




Output Index

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



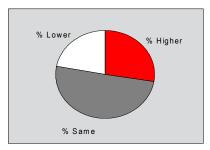


Growth of Russian manufacturing output accelerated sharply in October. The rate of expansion in the latest period was the strongest for a year, and followed a two-month sequence of marginal growth. The seasonally adjusted Output Index was also higher than its long-run average of 54.0 in October. Firms mainly linked rising production to improving demand. Output growth was broad-based across all three market groups, with the fastest pace shown at investment goods producers.

New Orders Index

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

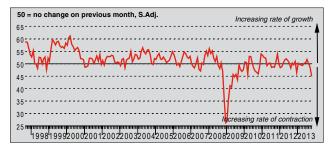


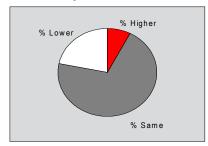


Russian manufacturers reported higher intakes of new work in October. Moreover, the seasonally adjusted New Orders Index posted its sharpest one-month gain since February 2009, and signalled the fastest rate of expansion in eight months. Firms reported successful marketing campaigns, new clients and improving domestic market conditions. All three market groups posted new order growth, led by the investment 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.

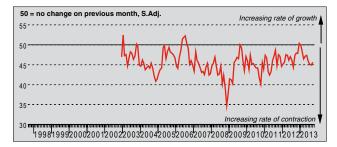


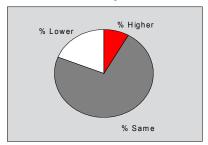


New export orders declined for the second month running in October, following a four-month sequence of weak growth. Furthermore, the rate of contraction accelerated sharply to the fastest since August 2009. In contrast to the trend shown for total new work, all three market groups registered lower levels of new export business in October. The sharpest decline was registered at intermediate goods firms.

Backlogs of Work Index

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

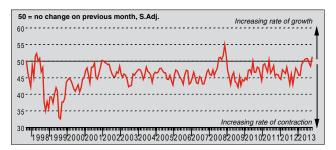


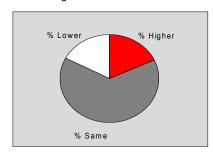


Backlogs of work fell further in October, extending the current sequence of depletion to eight months. The rate of contraction was slightly slower than in September, but remained sharp. The volume of outstanding business in the Russian manufacturing sector has declined in all but three of the past 85 months. By sector, the fastest drop in backlogs was registered at consumer 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.

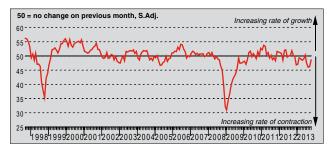


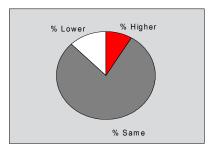


Post-production inventories at Russian manufacturers rose on average in October, following a two-month sequence of decline. Moreover, the rate of expansion was the strongest signalled since December 2008. Anecdotal evidence from survey respondents mainly attributed higher stocks to increased output and preparation for future orders. Consumer goods firms registered a sharp increase in stocks, while a decline was registered in the investment goods sector.

Employment Index

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



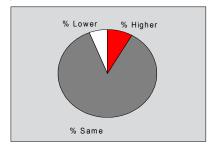


Russian manufacturing employment fell in October, the eleventh contraction in the past 12 months. That said, the rate of job shedding in the latest period was the slowest over the current four-month sequence. Where workforces declined, at 12% of firms, the main reasons given were efforts to cut costs and raise productivity. The overall fall in employment reflected a sharp drop in the intermediate goods sector, while higher staffing was registered at investment goods producers.

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.

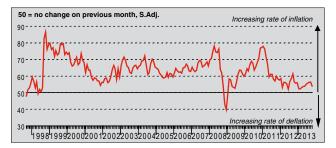


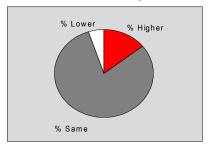


The seasonally adjusted Output Prices Index remained above the no-change mark of 50.0 for the sixth month in succession in October, signalling rising prices charged by Russian manufacturers. The rate of inflation slowed, however, to the weakest since May. Around 8% of firms reported higher output prices, partly linked to improving demand for their products but also due to higher input prices. Consumer goods firms raised charges at a faster rate than investment goods producers, while output prices for intermediate goods fell.

Input Prices Index

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



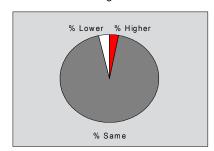


Average input prices paid by Russian manufacturers continued to rise in October, as they have every month since February 2009. The seasonally adjusted Input Prices Index fell for the first time in eight months, however, and signalled the weakest rate of inflation since May. The Index also remained well below its long-run average of 63.5. Some firms linked higher input prices to changes in exchange rates. Inflationary pressures were strongest at intermediate goods firms, 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.

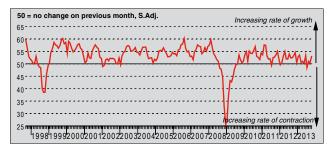


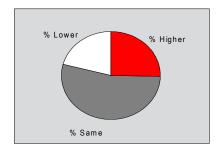


The performance of firms supplying inputs to Russian manufacturers was little-changed from one month previously in October. That followed a modest lengthening of delivery times in September. Sector data indicated longer input delivery times for producers of consumer goods, which was offset by slight improvements in both the intermediate and investment goods sectors.

Quantity of Purchases Index

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

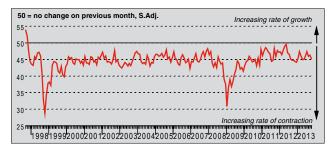


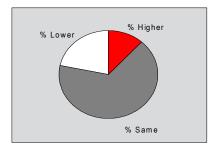


Purchasing activity in the Russian manufacturing sector increased for the third month running in October. The rate of growth accelerated to the fastest since June, and was in line with the long-run average since the survey started in September 1997. Anecdotal evidence mainly linked higher purchasing activity to increased production. In line with the trends shown for output and new orders, purchasing growth was fastest in the investment goods sector.

Stocks of Purchases Index

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





Manufacturers in Russia registered a sharp fall in pre-production inventories in October. The rate of contraction was the fastest since May, linked mainly to increased production. Stocks of purchases fell across all three market groups, led by the investment goods and consumer goods sectors respectively.

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.

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