

HSBC Russia Manufacturing PMI®

PMI signals further modest deterioration of operating conditions

Summary

Manufacturers in Russia registered a further deterioration in operating conditions during May, with output, new orders and employment all posting declines compared to the previous month.

There was, however, some further positive developments on the prices front as input cost inflation continued to descend from January's record pace in line with a strengthening of the rouble against major global currencies.

The survey's headline HSBC Purchasing Managers' Index™ (PMI) – a composite indicator designed to give a single-figure snapshot of operating conditions in the manufacturing economy – remained below the 50.0 no-change mark in May for a sixth month in succession. Moreover, dropping to 47.6, the index posted a four-month low and was down from 48.9 in April.

Soft underlying demand for manufactured goods remained the primary factor behind worsening operating conditions during the month. Latest data showed that total new orders fell to the greatest degree in six years, with the fall centred in the main on the investment goods category.

A similarly marked reduction in foreign business was recorded during May, although the rate of contraction eased to the lowest since January. Companies commented on a lack of demand from abroad and that, in some instances, clients were struggling to raise necessary finance.

A reduction in new orders weighed on production during May, with latest data showing a marginal contraction in output. As was the case with new work, the decline in production broadly emanated from the investment goods category. Providers of consumer and intermediate goods both registered growth of output compared to the previous survey period.

With new work continuing to fall, business resource was again utilised to lower backlogs of work. May's survey showed the sharpest reduction in unfinished business for three months.

Amid signs of some excess capacity, employment levels were lowered over the month. Moreover, the rate of contraction was the sharpest recorded since January.

Latest price data showed that manufacturers benefited to some degree via the recent stabilisation of the rouble against major global currencies such as the US dollar and the euro. Although input prices continued to rise, reflective of input shortages at vendors, the degree of inflation was the weakest for 27 months.

Average output charges also increased at a slower rate, with inflation marginal and the weakest for two years.

Finally, lower production requirements led Russian manufacturers to reduce their purchasing activity during May, and also cut their holdings of both pre- and post-production inventories compared to April.

Comment

Commenting on the Russia Manufacturing PMI survey, Paul Smith, Senior Economist at Markit, said:

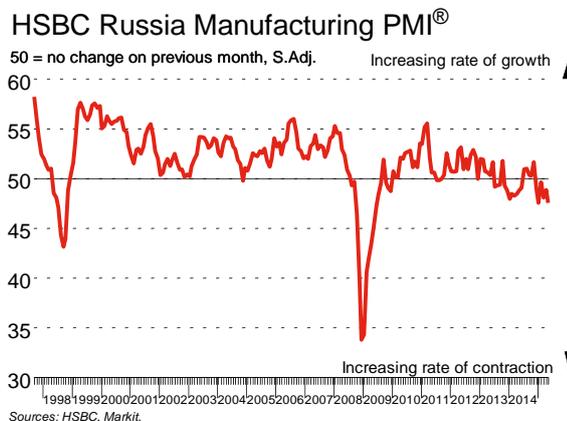
"The stuttering nature of Russia's manufacturing sector continued in May, with a rather disappointing set of survey data. Output, new orders and employment were all down since the previous survey.

"However, the contraction remains primarily centred on the investment goods sector, while the ongoing trend towards price level stabilisation suggests the macro-economic environment is showing some sign of improvement. This could, in time, help the manufacturing economy regain some lost ground over the coming months."

Key points:

- Output falls following accelerated reduction in new work
- Jobs cut amid signs of excess capacity
- Inflation rates continue to fall

Historical Overview



For further information, please contact:

HSBC

Anna Vasina, Personal Assistant to Head of Global Banking
Telephone +7 495 783 8896
Email anna.vasina@hsbc.com

Markit

Paul Smith, Senior Economist
Telephone +44-1491-461-038
Email paul.smith@markit.com

Joanna Vickers, Corporate Communications
Telephone +44 207 260 2234
Email joanna.vickers@markit.com

Notes to Editors:

The HSBC Russia Manufacturing PMI 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. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact economics@markit.com.

HSBC:

HSBC is one of the world's largest banking and financial services organisations. With more than 6,200 offices in both established and emerging markets, we aim to be where the growth is, connecting customers to opportunities, enabling businesses to thrive and economies to prosper, and, ultimately, helping people to fulfil their hopes and realise their ambitions.

We serve around 52 million customers through our four Global Businesses: Retail Banking and Wealth Management, Commercial Banking, Global Banking and Markets, and Global Private Banking. Our network covers 74 countries and territories in Europe, the Asia-Pacific region, the Middle East, Africa, North America and Latin America.

Listed on the London, Hong Kong, New York, Paris and Bermuda stock exchanges, shares in HSBC Holdings plc are held by about 216,000 in 129 countries and territories.

About Markit:

Markit is a leading global diversified provider of financial information services. We provide products that enhance transparency, reduce risk and improve operational efficiency. Our customers include banks, hedge funds, asset managers, central banks, regulators, auditors, fund administrators and insurance companies. Founded in 2003, we employ over 3,500 people in 10 countries. Markit shares are listed on Nasdaq under the symbol MRKT. For more information, please see www.markit.com.

About PMI:

Purchasing Managers' Index[™] (PMI[®]) surveys are now available for over 30 countries and also for key regions including the Eurozone. They are the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to www.markit.com/economics

The intellectual property rights to the HSBC Russia Manufacturing PMI[®] provided herein are owned by or licensed to 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[™] and PMI[®] are either registered trade marks of Markit Economics Limited or licensed to Markit Economics Limited. HSBC use the above marks under license. Markit is a registered trade mark of Markit Group Limited.

The HSBC Group, HSBC means HSBC Holdings plc, the company established in accordance with and regulated by the laws of England and Wales, and/or HSBC Bank plc, the Bank established in accordance with and regulated by the laws of England and Wales, and every company that is a member of the group, controlled by this Bank. OOO HSBC Bank (RR) («Bank», «HSBC in Russia»). General license issued by the Bank of Russia №3290. 2 Paveletskaya Square, Building 2, Moscow 115054 Russia.