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Press Release

MNB Manufacturing PMI

Russian manufacturing economy posted modest expansion in December.

Having recorded a contraction for the first time in six years during November, a return to growth of the Russian manufacturing economy was registered in December. The seasonally adjusted MNB *Manufacturing PMI*[®] posted a reading of 51.1, up from 49.8 in the previous month. Although signalling only modest growth and still well down on levels recorded earlier in 2004, it was the first rise in the headline index since June.

The MNB *Manufacturing PMI*[®] is derived from a monthly survey of 300 purchasing executives in Russian manufacturing companies which has been conducted since September 1997. Readings above 50.0 signal an increase on the previous month while reading below 50.0 signal a contraction.

Commenting on the survey, Paul Timmons, Economist at Moscow Narodny Bank (MNB), reported that:

"The improvement in this month's headline index marks a welcome reversal of five consecutive monthly declines and, more importantly, a return to positive growth across Russia's manufacturing sector. Indeed, the recovery was led by solid growth in new orders and output and, at the same time, export demand improved and backlogs of outstanding work were further reduced. More importantly though, the latest survey responses continued to signal difficulties in access to working capital, albeit the level concern was perceived to be lower than the previous month. Still, this 'credit availability' issue continues to raise doubts regarding the sustainability of Russia's current growth path and serves to highlight the urgent need to push forward with banking sector reform and establish a functioning system of credit intermediation across the country. Finally, inflationary pressures continue to persist both on the input and output side and remain consistent with official trends."

The MNB PMI is a monthly publication, researched and published by NTC Research featuring original research data from a survey of 300 Russian purchasing managers.

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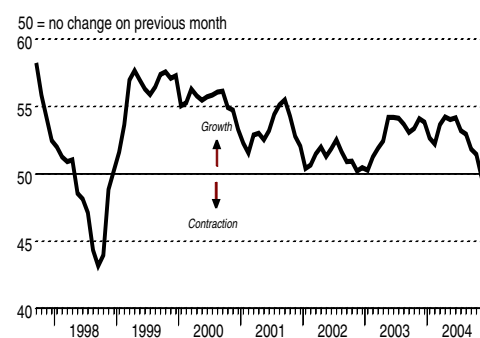
NTC Research specialises in the generation and publication of economic data and undertakes over thirty continuous surveys of economic conditions in fourteen countries.

Output and demand

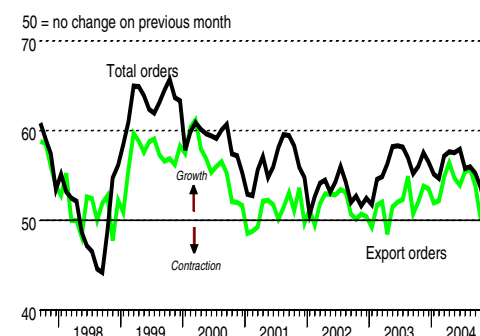
Leading the improvement of the PMI in December were concurrent rises in **output** and **new order** book growth. In both cases, the rates of expansion were solid, with firms reporting that improved demand for their products had led to gains in new business and, subsequently, growth of output. Moreover, an improvement in Russian manufacturing exports was recorded in December, with the latest data indicating solid expansion of new export business. Some panellists mentioned that demand from Near Abroad had risen particularly strongly during the latest survey period.

Along with growth of new orders, there were a number of reports from the survey panel that higher levels of output were the result of increased production capacity in December.

MNB Manufacturing PMI



Manufacturing New Orders



Supplier performance and Prices

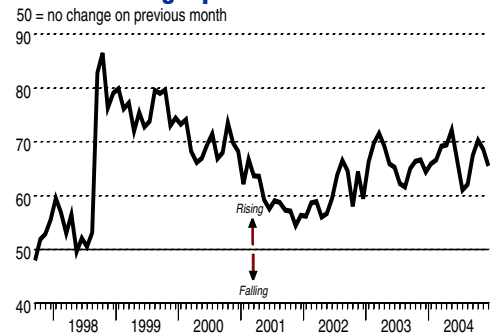
A modest lengthening of average **lead times** was recorded in December, the thirty-sixth successive month that suppliers' delivery times have worsened. Of the 5.1% of firms that reported a lengthening of average lead times during the latest survey month, the majority blamed input stock shortages at suppliers.

December's survey indicated an easing of **input price inflation** to its weakest for four months. That said, the rate at which input prices continued to rise was again sharp, with firms indicating that fuel, oil, oil by-products and metals had all risen in cost over the month. A strong euro was also reported to have raised the price of a number of imported goods. In response to higher input prices, manufacturers again raised their **output charges** although, in a similar manner to costs, the rate of inflation eased in December to its slowest level since August.

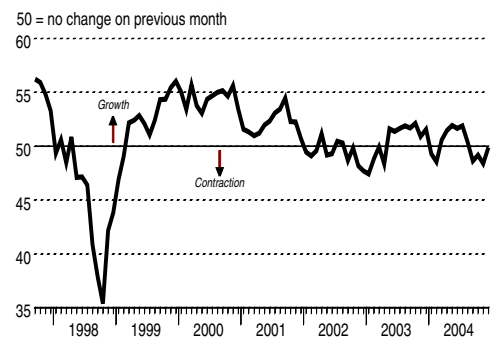
Employment

In December, **employment** levels in the Russian manufacturing sector were barely changed from the previous month. Those firms that reported job losses in the latest survey period reported that low new order growth had led to employment reductions. Where job creation was recorded in December, manufacturers commented that it was generally to help boost output.

Manufacturing Input Prices



Manufacturing Employment



Notes to Editors

A full report on the survey and data for the publication of charts are available from **Paul Smith** at NTC on **+44 (0)1491 418 638**. For all other press enquiries please contact **Paul Forrest**, Head of Research at Moscow Narodny Bank on **+44 (0)20 7815 9333**.

The PMI is derived from indices which measure changes in output, orders, employment, suppliers' delivery times and stocks. As with all indices in this release, a reading below 50.0 indicates that the manufacturing economy is generally declining; above 50.0 that it is generally expanding.

The PMI and related indices are directly comparable with all other national Purchasing Managers' Indices, and are produced using identical methodologies in each country.

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