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HSBC Russia Services PMI™

Russian service sector sweltered under heatwave in August.

Key findings:

- Headline Business Activity Index fell sharply to below 50.0 no-change mark.
- New business declined for first time since February.
- Twelve-month growth outlook moderated.

August services PMI data for Russia from HSBC signalled a heatwave-induced contraction of activity mid-way through the third quarter. Total services output fell for the first time since July 2009, while new business and employment also declined. The negative impact on demand from the extreme weather conditions was also reflected in the twelve-month outlook for activity growth which, though still positive, moderated to its weakest since April 2009. Meanwhile, Russian service providers raised their charges at the fastest rate since January 2009, although the rate of inflation remained subdued in the context of historic survey data.

The headline seasonally adjusted Business Activity Index is a single-figure measure designed to track changes in total Russian services activity compared to one month previously. Readings above 50.0 signal growth of activity compared to one month previously, and below 50 contraction.

Adjusted for seasonal factors, the Business Activity Index fell sharply in August to 47.0, from 54.1 in July. The 7.1-point drop in the Index was the third-largest in the survey history, and the latest figure pointed to the fastest rate of contraction since May 2009. The fall in activity in August followed twelve consecutive months of expansion. According to survey respondents, the severe weather conditions during the month had heavily contributed to the decline in activity. By sub-sector, activity fell in Renting & Business Activities, Financial Intermediation and 'Other Services'. Incoming new business in the Russian service sector fell in

August, the first decline since February. In line with the trend for total activity, falling receipts of new work were linked to the heatwave. The latest contraction in new business also resulted in the steepest drop in outstanding contracts in sixteen months.

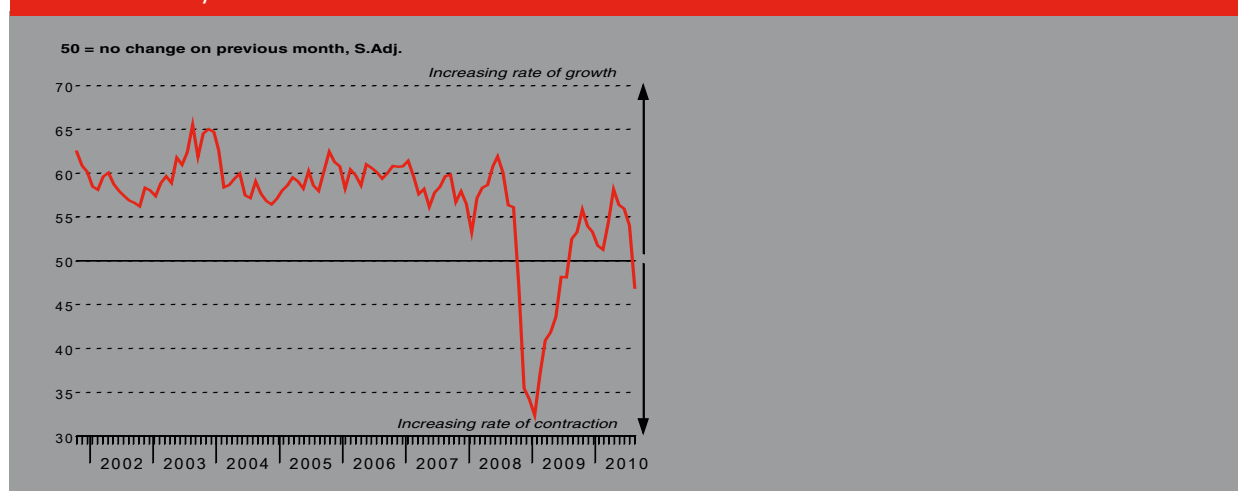
Private sector services employment in Russia declined in August, following a four-month sequence of mild growth. The rate of job shedding was the fastest since September 2009 and mainly linked to falling new business volumes. Five out of six sub-sectors covered posted lower staffing, the exception being Post & Telecommunications.

The heatwave also dimmed sentiment regarding the longer-term outlook. Services activity is forecast to rise overall during the next twelve months, but the strength of positive expectations was the weakest since April 2009. Service sector business sentiment has moderated every month since hitting a forty-one month high in April. Sentiment was strongest in Transport & Storage, and weakest in 'Other Services' and Financial Intermediation.

Input price inflation in the Russian service sector eased for the third successive month in August to the weakest since October 2009. The rate of inflation was also well below the long-run survey trend. Input prices fell on average in the Hotels & Restaurants sector.

Russian service providers raised their output prices on average in August. Despite accelerating slightly to the fastest since January 2009, the rate of charge inflation remained weak when viewed in the context of historic survey data.

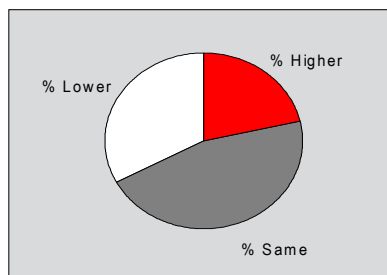
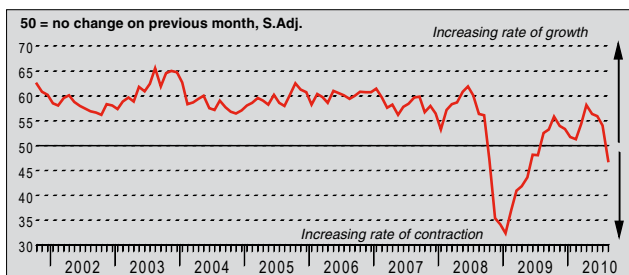
Business Activity Index



The survey uses a methodology identical to the HSBC Russia Manufacturing PMI. The survey uses a panel of regularly participating companies to monitor trends in business conditions in the private sector services economy. The panel has been carefully selected to accurately replicate the true structure of the Russian services economy.

Business Activity Index

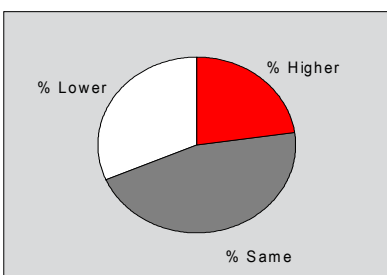
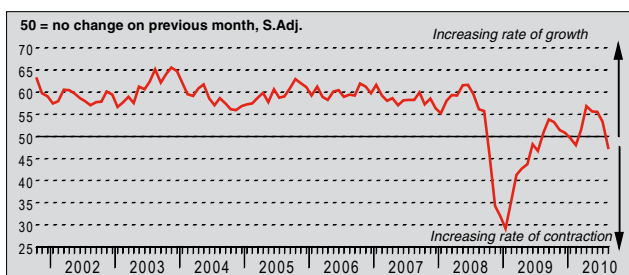
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



Output in the Russian service sector fell for the first time in over a year in August. After adjusting for normal seasonal factors, the Business Activity Index posted its steepest one-month fall since the twelve-point drop seen in November 2008. The latest figure signalled the sharpest rate of contraction since May 2009. Anecdotal evidence provided by respondents suggested a link between falling activity and the heatwave. By sub-sector, falling activity was signalled in Financial Intermediation, Renting & Business Activities and 'Other Services'.

New Business Index

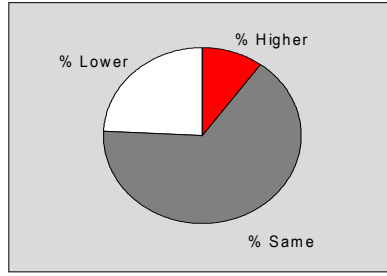
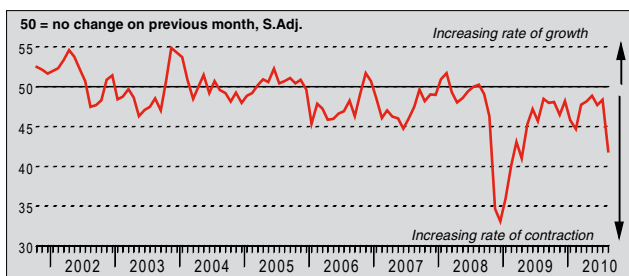
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



Having signalled continuous growth the previous five months, the seasonally adjusted New Business Index fell below the no-change mark of 50.0 during August to signal a decline in new contracts placed with Russian service providers. Mirroring the trend for activity, the downward movement in the Index was the steepest since November 2008 and the third-sharpest in the series history. The rate of contraction signalled by the latest figure was the fastest since July 2009. Reasons given for lower new business mainly pointed to the extreme weather conditions in August.

Outstanding Business Index

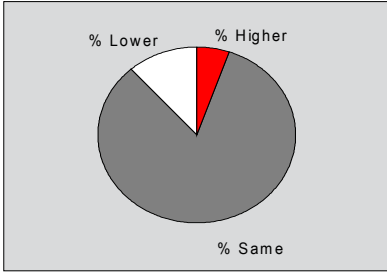
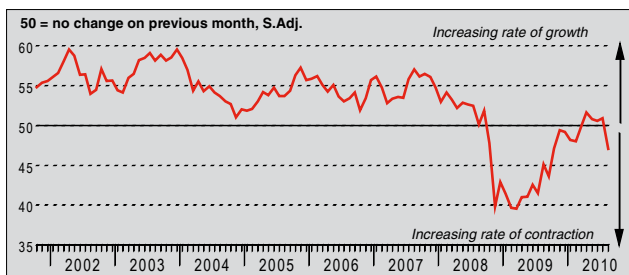
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



Reflecting the decline in incoming new work during the month, the volume of outstanding business in Russia's services economy declined sharply in August. Almost one-quarter of the survey panel reported lower backlogs, compared to one-in-ten that reported growth. The seasonally adjusted Outstanding Business Index fell to a sixteen-month low, and has signalled falling backlogs in every month since September 2008, highlighting spare capacity in the sector. All six sub-sectors recorded falling outstanding business in August.

Employment Index

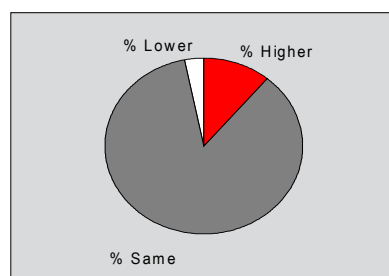
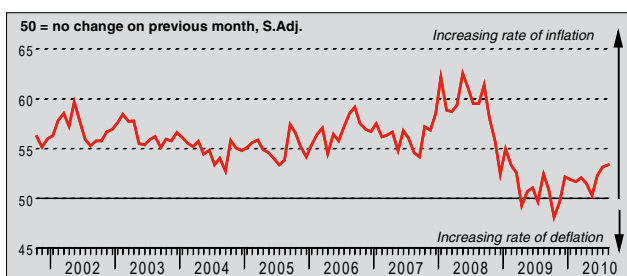
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



Private sector services employment in Russia declined for the first time in five months in August. This partly reflected a halt to recruitment activities during the heatwave, while some firms linked job losses to falling new business volumes. The seasonally adjusted Employment Index signalled the fastest rate of job shedding in the sector since September 2009. By sub-sector, only Post & Telecommunications registered growth of employment, while the fastest rate of reduction was posted in Hotels & Restaurants.

Prices Charged Index

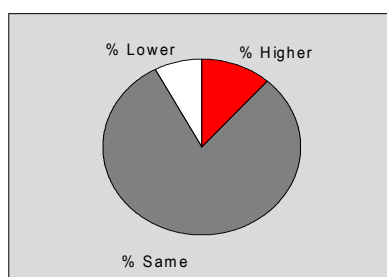
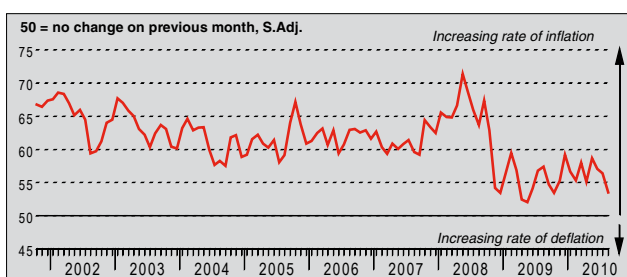
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



The seasonally adjusted Prices Charged Index remained above the no-change mark of 50.0 in August, signalling a further increase in prices charged by Russian service providers. Despite rising to a nineteen-month high, the Index remained lower than its long-run average (55.6), suggesting that inflationary pressures for end consumers were relatively muted. Where charges rose, this was mainly attributed to companies passing on higher input prices to customers. By sub-sector, the steepest rise in charges was indicated in Transport & Storage.

Input Prices Index

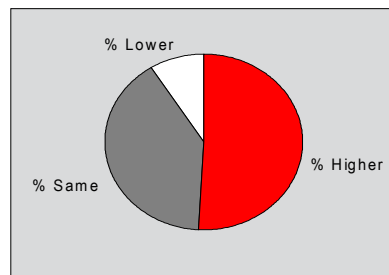
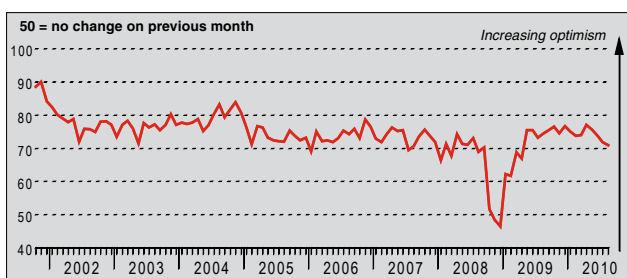
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



Russian service providers paid higher prices for their inputs on average in August. Sources of inflationary pressure included transport, advertising and staff costs. However, the rate of input cost inflation eased for the third month running, to the weakest since October 2009. The seasonally adjusted Input Prices Index was at its fifth-lowest level in almost nine years of data collection to date. Sub-sector data signalled the fastest rates of input price inflation in Transport & Storage, 'Other Services' and Post & Telecommunications respectively.

Business Expectations Index

Q. In twelve months' time, do you expect overall activity at your business unit to be higher, the same or lower than now?



The Business Expectations Index remained above the neutral level of 50.0 in August, signalling growth of services activity is forecasted in Russia over the next twelve months. That said, the Index eased for the fourth successive month, to indicate the weakest degree of positive sentiment since April 2009. The Index was also below its long-run trend level of 74.4 during the month. Just over half of the survey panel expect activity at their units to rise over the next twelve months. By sub-sector, business sentiment was strongest in Transport & Storage.

Notes on the Data and Method of Presentation

The Russia Services PMI covers transport & communication, financial intermediation, business services, personal services, computing & IT and hotels & restaurants.

Each response received is weighted each month according to the size of the company to which the questionnaire refers and the contribution to total service sector output accounted for by the sub-sector to which that company belongs. This therefore ensures that replies from larger companies have a greater impact on the final index numbers than replies from small companies.

The results are presented by question asked, showing the percentage of respondents reporting an improvement, deterioration or no change on the previous month. From these percentages an index is derived such that a level of 50.0 signals no change on the previous month. Above 50.0 signals an increase (or improvement), below 50.0 a decrease (or deterioration). The greater the divergence from 50.0, the greater the rate of change signalled.

The indexes are calculated by assigning weights to the percentages: the percentage of respondents reporting an "improvement/increase" are given a weight of 1.0, the percentage reporting "no change" are given a weight of 0.5 and the percentage reporting a "deterioration/decrease" are given a weight of 0.0. Thus, if 100% of the survey panel report an "increase", the index would read 100. If 100% reported "no change" the index would read 50 (100 x 0.5), and so on. 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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