

HSBC Russia Services PMI™ (with Composite PMI data)

Russian service sector sweltered under heatwave in August

Summary

August services PMI data for Russia from HSBC signalled a heatwave-induced contraction of activity mid-way through Q3. The headline seasonally adjusted Business Activity Index, a measure designed to track monthly changes in total Russian services activity, fell sharply to 47.0. That pointed to the fastest rate of contraction since May 2009. Manufacturing output rose at the slowest rate in three months (54.9), resulting in an overall stagnation in private sector activity as the Composite Output Index fell to 49.9, from 54.5 in July.

Incoming new business in the Russian service sector fell in August, linked to the heatwave. In contrast, manufacturing new orders rose at the fastest rate since April 2008. Total new business across manufacturing and services rose only marginally.

Services employment in Russia declined in August, following a four-month sequence of mild growth. Manufacturers raised staff levels at only a fractional rate during the month and, measured overall, private sector employment fell for the first time in five months.

Input price inflation in the Russian service sector eased in August to the weakest since October 2009, and remained relatively weak. Manufacturing input prices rose at a faster rate that was slightly above the long-run series average. Input prices across the manufacturing and service sector as a whole rose at the slowest rate in nine months.

Output price inflation accelerated to 19- and 25-month highs in services and manufacturing respectively. The combined rate of charge inflation was the sharpest since October 2008 but, reflecting the muted trend in services, below the long-run series average.

Please note that, from the September release of the Russia Services PMI onwards, the headline figure for the survey as stated in all press releases and reports is the Business Activity Index. The previous headline figure, a composite Services PMI*, is available to licensed subscribers.

With the Business Activity Index as the headline figure, the Russia Services PMI survey is consistent with all other services PMI surveys compiled by Markit for HSBC. The previous services 'PMI' figure for Russia was a bespoke series produced at the request of the previous sponsor of the survey.

*calculated from activity (0.25), new business (0.3), employment (0.2), outstanding business (0.15) and future expectations (0.1) indices.

Comment

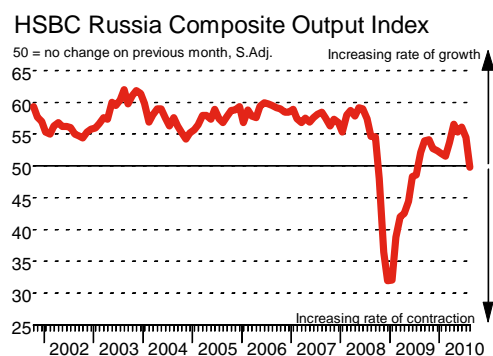
Commenting on the Russia Services and Composite PMI data, Alexander Morozov, Chief Economist (Russia and CIS) at HSBC, said:

"The Russian economy stopped growing in August - the HSBC Russia Composite PMI showed. Literally speaking, economic growth is gone with the heatwave and smog. The sharp decline in services business activity should be attributed to the recent heatwave that took its high toll from the sector: services business activity has declined in August for the first time since July 2009. Besides, service firms have stopped hiring in August. This is another negative consequence of the heatwave. PMI surveys in August found that growth in manufacturing (less export industries) and decline in services has offset each other and resulted in the overall output stagnation in August. Judged by HSBC Russia Composite PMI and accounting for the base effect, y-o-y GDP growth most likely will moderate in both 3Q and 4Q."

Key points

- Services Business Activity Index fell sharply to 47.0, signaling falling output in services.
- Composite Output Index fell to 49.9, lowest since July 2009.
- Services new business and employment both declined in August.

Historical Overview



For further information, please contact:

HSBC

Julia Molchanova
Telephone + 7 495 721 1515
Email julia.molchanova@hsbc.com

Maria Yelyutina
Telephone + 7 495 721 1515
Email maria.yelyutina@hsbc.com

Markit

Trevor Balchin, Senior Economist
Telephone +44-1491-461-065
Email trevor.balchin@markit.com

Caroline Lumley, Corporate Communications
Telephone +44-20-7260-2047
Email caroline.lumley@markit.com

Notes to Editors:

The HSBC Russia Services PMI is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 300 private service sector companies. The panel has been carefully selected to accurately replicate the true structure of the services economy.

The HSBC Russia Composite PMI is a weighted average of the Manufacturing Output Index and the Services Business Activity Index, and is based on original survey data collected from a representative panel of over 600 companies based in the Russian manufacturing and service sectors.

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'.

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.

The Purchasing Managers' Index (PMI) survey methodology has developed an outstanding reputation for providing the most up-to-date possible indication of what is really happening in the private sector economy by tracking variables such as sales, employment, inventories and prices. The indices are widely used by businesses, governments and economic analysts in financial institutions to help better understand business conditions and guide corporate and investment strategy. In particular, central banks in many countries use the data to help make interest rate decisions. PMI surveys are the *first* indicators of economic conditions published each month and are therefore available well ahead of comparable data produced by government bodies.

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:

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