HSBC Purchasing Managers' Index 2010

compiled by markit

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HSBC Russia Services PMI™

Services growth resumed tentatively following summer heatwave.

Key findings:

- Headline Business Activity Index rose above 50.0 no-change mark.
- New business increased marginally.
- Employment fell for second month running.

The latest HSBC survey data covering the Russian services sector indicated that business conditions improved in September, following a heatwave-induced contraction in August. Business activity and new business both increased on a seasonally adjusted basis, albeit at relatively modest rates. Meanwhile, service providers continued to cut staffing levels on average, while inflationary pressures remained muted.

The headline figure for the survey is the seasonally adjusted Business Activity Index, 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.

The seasonally adjusted Business Activity Index rose above the no-change mark of 50.0 in September, having fallen sharply to a fifteen-month low of 47.0 in August. At 51.5, the Index signalled a moderate rate of expansion, but remained below its July level of 54.1, suggesting that momentum had not fully returned to the service sector following the extreme weather conditions experienced in August. By sub-sector, activity rose at the strongest pace in Hotels & Restaurants. Financial Intermediation posted a further decline, as did Renting & Business Activities.

The volume of incoming new business received by Russian service providers increased in September, having declined in August for the first time in six months. However, the rate of expansion was only marginal, and much weaker than the long-run series average.

The relatively weak rise in new work contributed to a further fall in outstanding business in the Russian service sector in September. The current sequence of contraction now stretches to more than two years. That said, the rate of decline slowed sharply in the latest period.

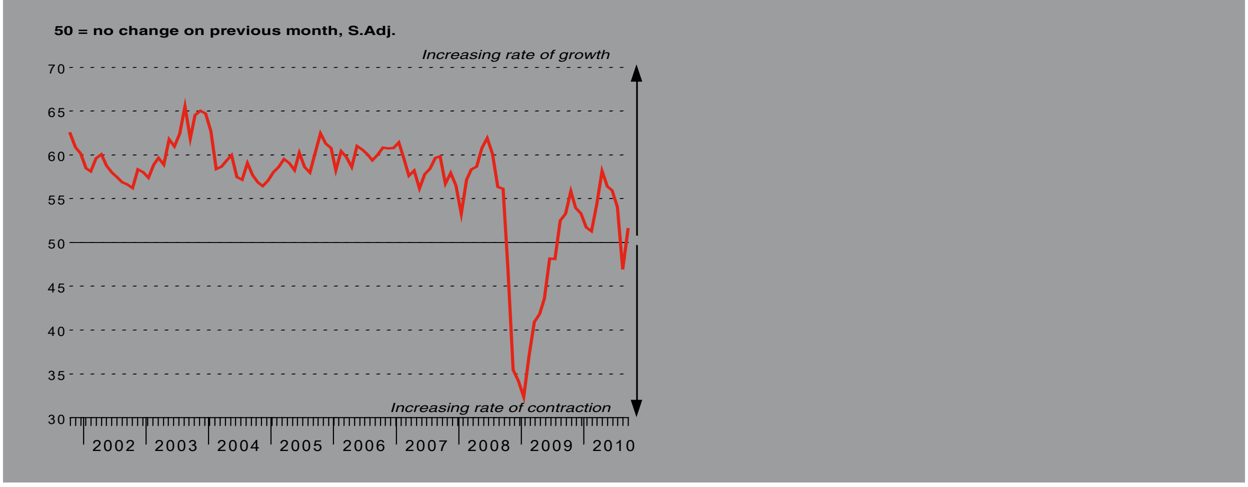
Service sector employment in Russia declined for the second month running in September, highlighting the relatively muted increase in business requirements. However, the rate of job shedding slowed from August's eleven-month record.

Cost inflationary pressures faced by Russian service providers sharpened in September. Higher average input prices were partly linked to wage pressures, and the overall rate of inflation was the strongest since June. However, input price inflation remained weaker than the long-run survey average, as has been the case throughout the past two years. In line with the trend in recent months, Transport & Storage recorded the steepest increase in average input prices in September.

The pass-through of higher input costs by service providers remained limited in September. The rate of output price inflation in the sector was weak, and the slowest since May. Charges fell in Hotels & Restaurants, Renting & Business Activities and 'Other Services'.

Although activity and new business both increased in September, the twelve-month outlook for output weakened further. Nearly half of all firms expect activity to rise, but the overall degree of sentiment was the worst since April 2009.

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.

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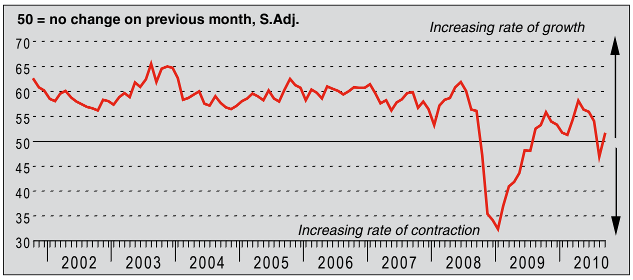
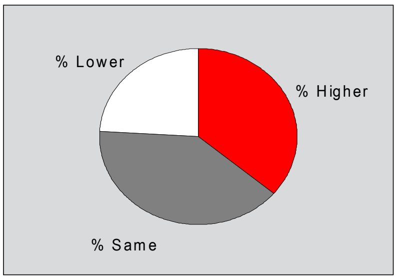
Business Activity Index

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.

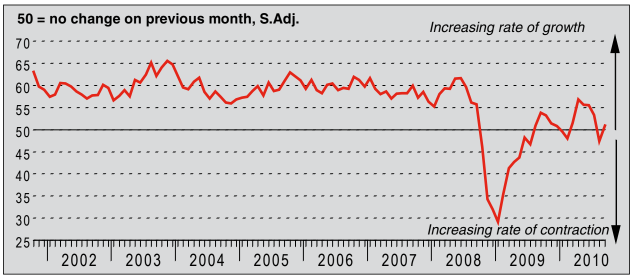


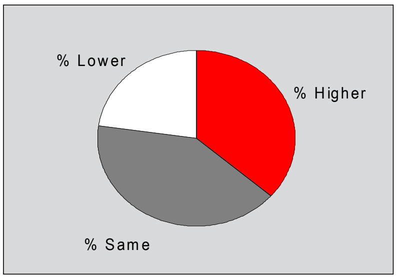


The seasonally adjusted Business Activity Index rose in September, passing the neutral mark of 50.0 to signal overall growth of service sector output in Russia at the end of Q3. That followed the first contraction in over a year in August, which resulted from the heatwave which hit Moscow in particular. Firms reported that market conditions had improved, with demand revived as extreme weather conditions abated. That said, the latest Index reading suggested that growth had failed to match the trend pace recorded over the previous twelve-month sequence of expansion.

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.

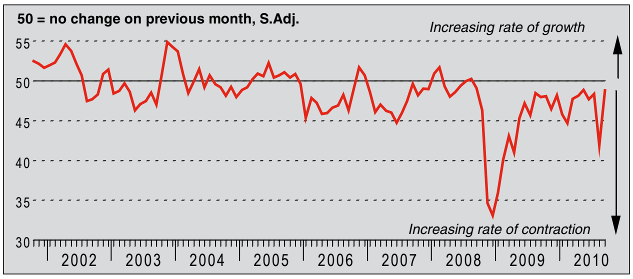


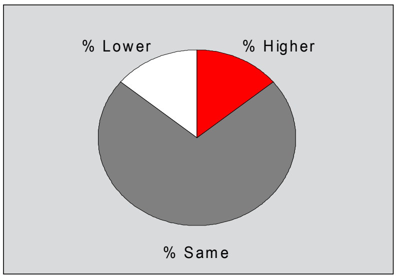


Growth of new business resumed in Russia's service sector in September, following August's weather-related contraction. The seasonally adjusted New Business Index was above 50.0 for the sixth time in seven months, but at a level indicative of only a marginal rate of expansion. The latest sub-sector data signalled growth of new contracts in three sub-sectors, namely Post & Telecommunication, Transport & Storage and Renting & Business Activities.

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.

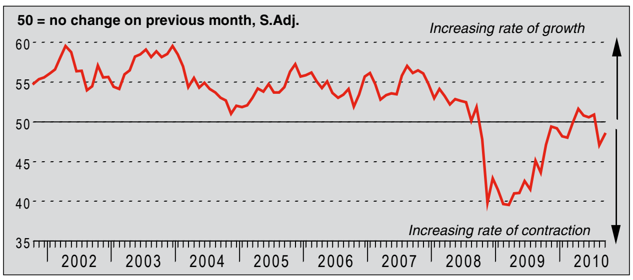


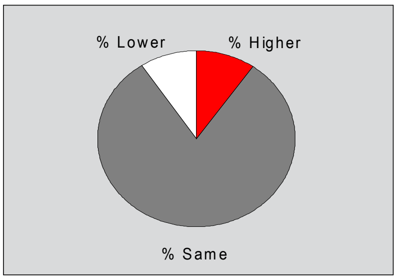


Outstanding work at Russian service providers continued to fall in September. The current sequence of contraction now stretches to more than two years. However, the seasonally adjusted Outstanding Business Index rose sharply on the month, to signal a much weaker rate of decline that was the slowest since May. This moderation mainly reflected the resumption in growth of new business during the month. Backlogs fell across four sub-sectors, the exceptions being Hotels & Restaurants and 'Other Services'.

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).

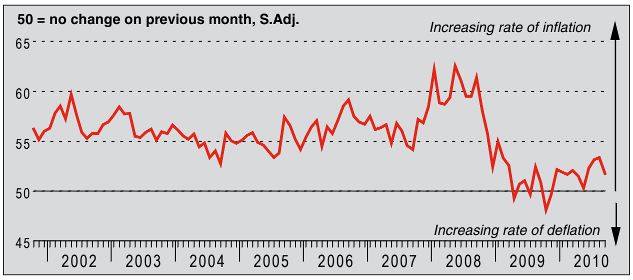


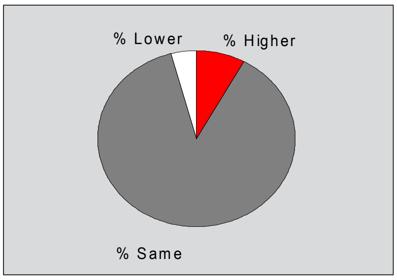


Higher activity and new business in September failed to generate growth of the service sector workforce. The seasonally adjusted Employment Index remained below the no-change mark of 50.0 for the second month running, but rose since August to signal a weaker rate of job shedding. Prior to August, staffing in the sector had risen for four months in a row. Jobs declined across four sub-sectors, led by Financial Intermediation. Staffing rose in Post & Telecommunication and was unchanged since August in Transport & Storage.

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.

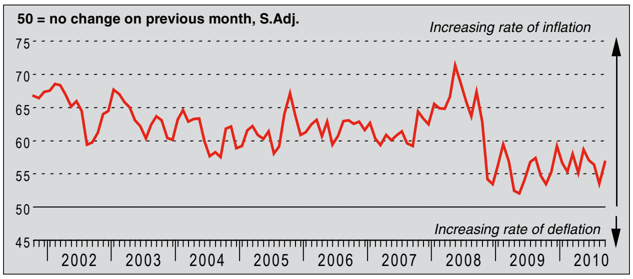


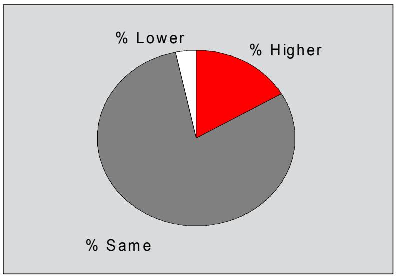


Russian service providers raised their charges in September. The current run of output price inflation in the sector now stretches to ten months. That said, the rate of inflation remained modest in the context of historic survey data, and eased to a four-month low in the latest period. Only 8% of firms reported raising tariffs during the month, as the vast majority (88%) stated no change. Prices charged rose in three sub-sectors – Post & Telecommunication, Financial Intermediation and Transport & Storage – with the latter posting the steepest increase.

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.

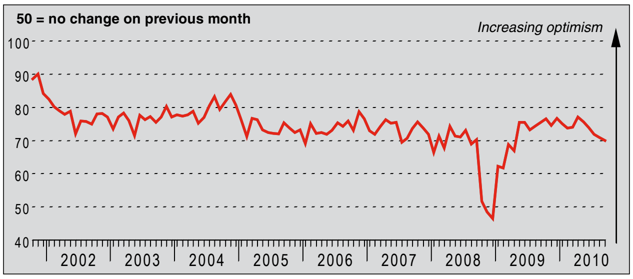


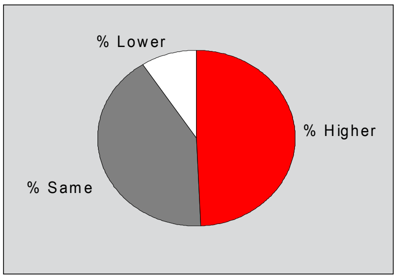


The seasonally adjusted Input Prices Index rose in September, to signal the fastest rate of input cost inflation in three months. Wages were reported by survey respondents as a source of rising cost pressures. By sub-sector, the steepest rate of input price inflation was indicated in Transport & Storage, followed by 'Other Services'. However, the overall rate of input price inflation remained well below the long-run survey average, in line with the trend seen in 2009 and 2010 to date.

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?





Russian service providers remained confident in September that business activity would rise over the forthcoming twelve months, as the Business Expectations Index was firmly above the no-change mark of 50.0. However, the overall degree of positive sentiment eased to its weakest since April 2009, as less than half of survey respondents reported expectations of activity growth. The Index remained lower than its long-run trend level of 74.4 during the month. Business sentiment was particularly muted in Post & Telecommunication and 'Other Services'.

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.

Warning