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HSBC Russia Services PMI™ (with Composite PMI data)

Services growth resumed tentatively following summer heatwave

Summary

The latest HSBC survey data covering the Russian services sector indicated that business conditions improved in September, following a heatwave-induced contraction in August. The headline figure for the survey, the seasonally adjusted Business Activity Index, rose above the no-change mark of 50.0, having fallen sharply to 47.0 in August. At 51.5, the Index signalled moderate expansion, but remained below its July level of 54.1, suggesting that momentum had not fully returned following the extreme weather conditions experienced in August. A composite Output Index tracking changes in total activity across manufacturing and services rose to 52.3, from 49.9 in August, signalling modest expansion.

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. Total new business across manufacturing and services rose at a modest pace, as manufacturing new order growth slowed in September.

The relatively weak rise in new work in services contributed to a further fall in outstanding business in September. Manufacturing backlogs also declined during the month, and outstanding business across both sectors has now fallen continuously for five years.

Service sector employment in Russia declined for the second month running in September, highlighting the relatively muted increase in business requirements. Manufacturing employment fell for the first time in three months, contributing to a second successive monthly decline in staffing across both sectors.

Russian service providers' average input prices rose at the fastest rate in three months in September, linked to wage pressures. However, input price inflation remained weaker than the long-run survey average. Manufacturers continued to record sharper increases in average input prices than their counterparts in services.

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. In contrast, charges by manufacturers rose at the fastest rate since July 2008. Despite this, average prices charged across both sectors rose at a slower rate.

Comment

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

"Both HSBC Services PMI and HSBC composite PMI returned to the 'growth zone' in September. Yet, growth momentum is weak, lagging behind the levels seen just a few months ago. The economy must have grown by annualized 2-3% in September after stagnation in August, judged by past correlation between PMI and economic growth. There appears to be low immediate potential for further economic growth acceleration from the August trough, as follows from the relatively low composite new orders index.

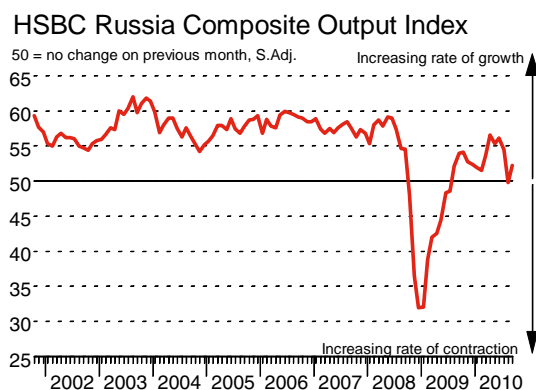
Seasonally-adjusted employment has been declining for two months in a row, with both manufactures and service providers shedding labour. Business expectations in services dropped to the end-recession level. So, service providers must be adjusting their initially strongly upbeat expectations down to the lower growth reality.

Despite weak economic growth, Inflation momentum in the economy is pretty strong, with the broad-based rise in cost pressures. Yet, at this point the pass-through of cost pressures to output prices is mostly seen in the manufacturing."

Key points

- Services Business Activity Index rose above 50.0 no-change mark to 51.5.
- Composite Output Index increased to 52.3.
- Services new business rose marginally, but jobs fell for second month running.

Historical Overview



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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.

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