

Embargoed until: 08:00 (MOSCOW), 3 November 2010

## HSBC Russia Services PMI™

Russian service sector growth strengthened in October.

### Key findings:

- Headline Business Activity Index posted four-month high of 55.6.
- New business growth accelerated sharply.
- Twelve-month outlook for activity growth improved.

The latest HSBC survey data covering the Russian service sector indicated that business conditions improved at a stronger pace in October. Total activity and incoming new business both increased at faster rates, while the pace of job shedding in the sector slowed to a marginal level.

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 50.0 contraction.

At 55.6 in October, the Business Activity Index signalled a second successive monthly rise in Russian service sector output, and the fastest increase since June. The Index has recovered 8.6 points since slumping to 47.0 in August during the heatwave. It remained below its long-run trend, however, indicating that growth momentum has yet to reach pre-crisis levels.

By sub-sector, activity growth was strongest in Hotels & Restaurants and 'Other Services' in October. Activity declined in Transport & Storage.

Supporting the faster rise in activity in October was a stronger gain in new business. The rate of expansion was the sharpest signalled since April, and broadly in line with the long-run survey average (since October 2001). Companies in Post & Telecommunications and Renting & Business Activities recorded the strongest rates of expansion during the month.

The volume of outstanding work held at Russian service providers declined in October, as it has in every month since September 2008. The rate of contraction was slightly faster than in the previous month, but remained weak compared to the average over the current sequence.

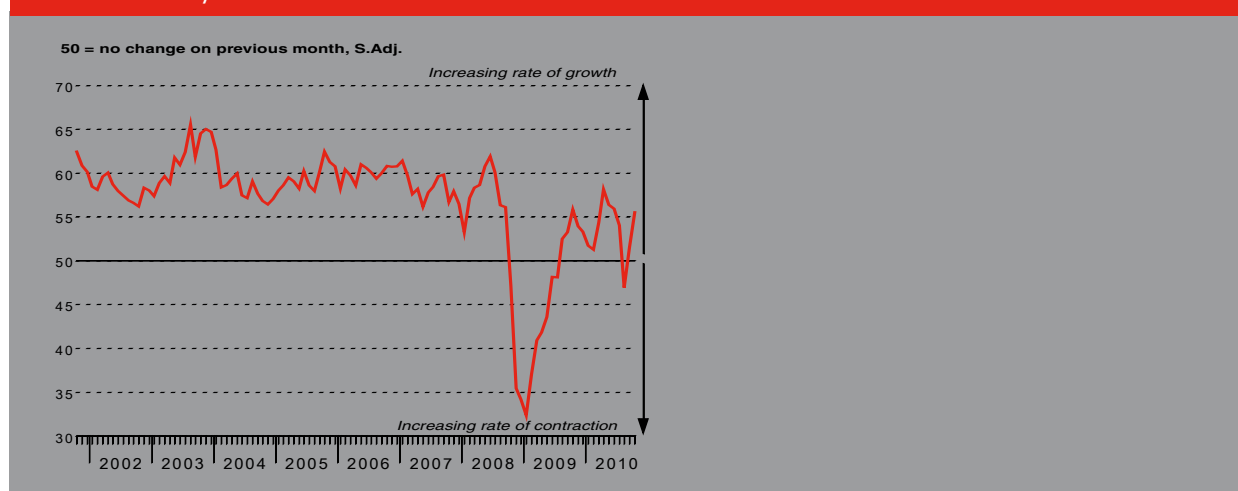
Service sector employment in Russia declined for the third month running in October. However, the rate of job shedding slowed further from August's eleven-month record to a marginal pace. Workforces expanded in Post & Telecommunications and Renting & Business Activities during the latest period.

Input prices in the Russian service sector rose at a softer pace in October. The rate of input cost inflation was the second-slowest in a year, and remained weaker than the long-run survey average. Where input prices were reported to have risen, the main sources were utilities, salaries and oil-related products.

Pricing power at Russian service providers remained weak in October. Charges rose for the eleventh month running, but the rate of inflation was marginal and the slowest since May. The majority of survey respondents reported no change in tariffs, which they linked to competitive pressures.

The latest survey data signalled growing optimism regarding the prospects for activity over the next twelve months. The overall degree of positive sentiment was the strongest in four months, and only slightly below the long-run survey average. Business expectations were strongest in Transport & Storage and Renting & Business Activities respectively.

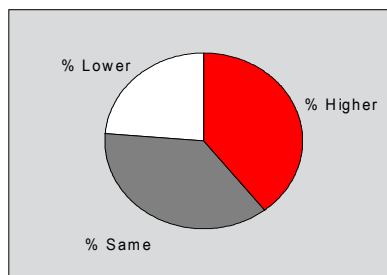
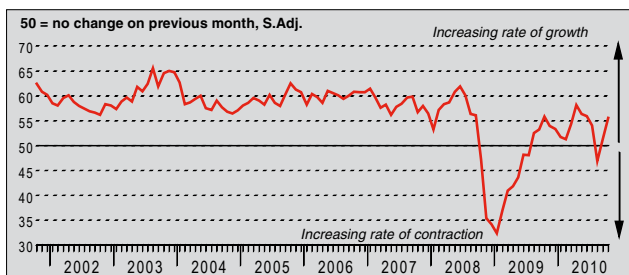
### Business Activity Index



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

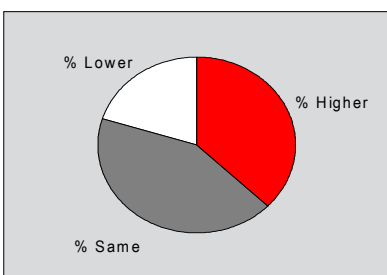
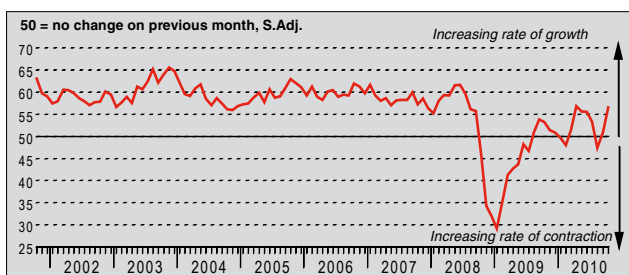
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



Private service sector activity in Russia rose for the fourteenth time in fifteen months in October. The rate of growth improved, to its fastest since June, as the seasonally adjusted Business Activity rose sharply for the second successive month. Firms mainly linked higher activity to increased receipts of new orders. That said, the rate of expansion signalled by the latest figure remained weaker than the pre-crisis trend. Five sub-sectors posted higher activity, with the fastest increases seen in Hotels & Restaurants and 'Other Services'. Transport & Storage registered a decline.

### New Business Index

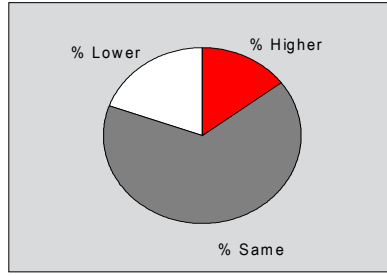
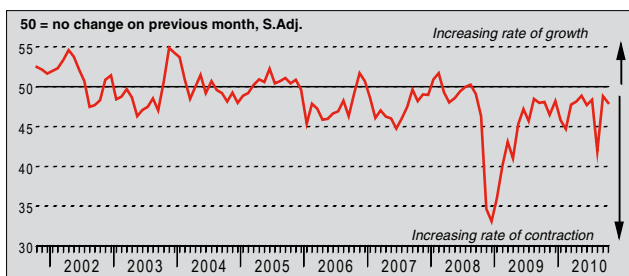
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



New business received by Russian service providers increased at a much faster rate in October. The seasonally adjusted New Business Index registered the largest one-month gain since March 2009, and signalled the sharpest rate of expansion in six months. The latest figure was broadly in line with the long-run survey average (56.7). Anecdotal evidence reported a general improvement in underlying demand and, in some cases, improved financial market conditions. The fastest rates of growth were signalled in Post & Telecommunications, Renting & Business Activities and 'Other Services'.

### Outstanding Business Index

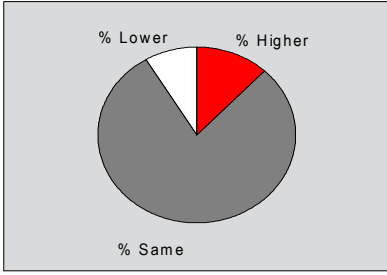
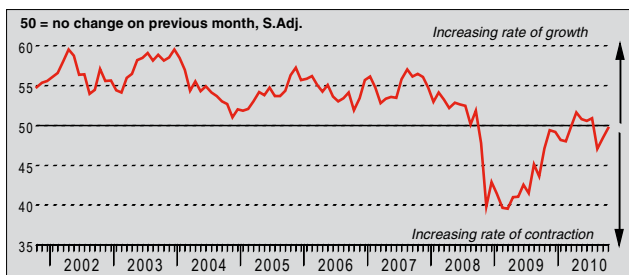
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



Incomplete business in the Russian service sector declined for the twenty-sixth successive month in October. The seasonally adjusted Outstanding Business Index fell slightly over the month, signalling a faster rate of contraction. It was broadly in line with its long-run trend level, however, indicating a moderate overall pace of decline. Around one-in-five survey respondents reporting cutting outstanding business during the month. The latest overall contraction indicated that spare capacity remained in the sector. Backlogs declined in four sub-sectors, led by Transport & Storage.

### Employment Index

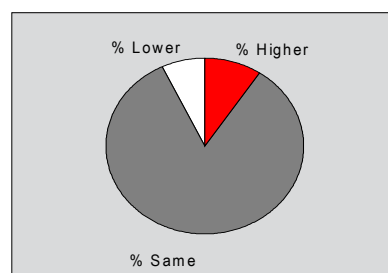
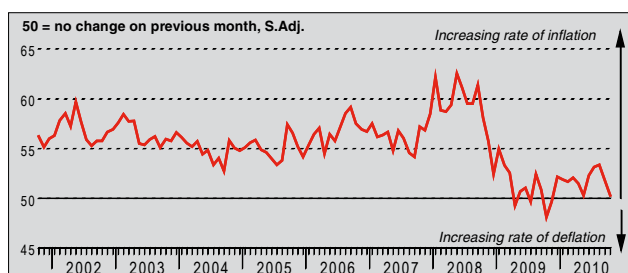
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



Services employment in Russia declined for the third month running in October. Reductions to workforces were linked by survey respondents to efforts to cut costs. The seasonally adjusted Employment Index rose on the month, however, to a level only slightly below the 50.0 no-change mark. The latest figure signalled only a marginal overall rate of decline in staffing in the sector that was the weakest in the current sequence. Two sub-sectors, Post & Telecommunications and Renting & Business Activities, registered growth in workforces in the latest period.

## Prices Charged Index

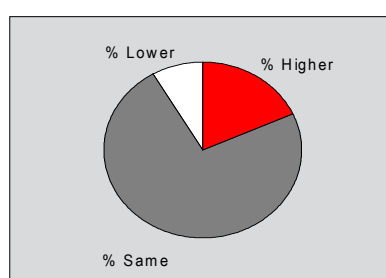
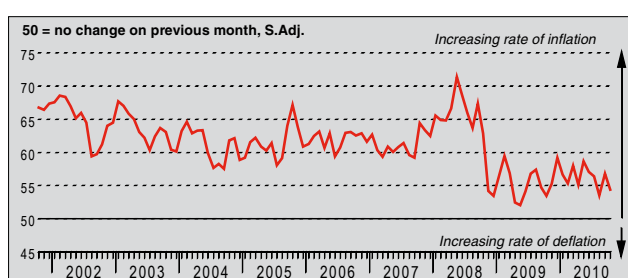
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Average prices charged by Russian service providers rose for the eleventh month running in October. The seasonally adjusted Prices Charged Index remained above 50.0, but fell to a level indicative of only a marginal rate of output price inflation. Anecdotal evidence linked the lack of pricing power in the sector to competitive pressures. A weaker rise in average tariffs also reflected a slower rate of input price inflation during the latest period. Charges rose in three sub-sectors, namely Transport & Storage, Post & Telecommunications and Financial Intermediation.

## Input Prices Index

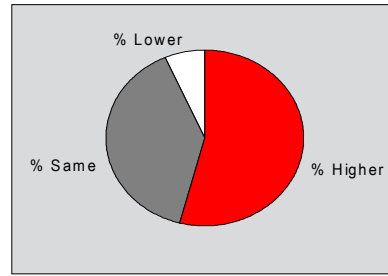
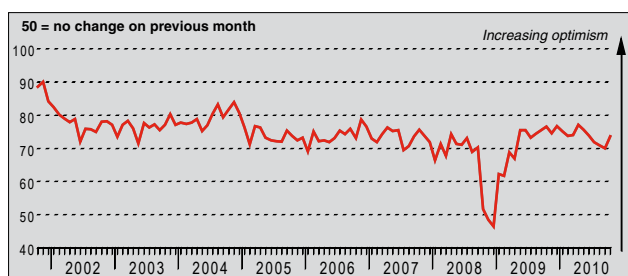
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



Average input prices faced by Russian service providers increased further in October. Utilities, salaries and oil-related products such as fuel were all reported as sources of inflationary pressure. The seasonally adjusted Input Prices Index fell on the month, however, and signalled the second-weakest rate of inflation of the past twelve months. It also remained well below its long-run trend level. By sub-sector, prices rose fastest in Transport & Storage and Financial Intermediation.

## 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?



Sentiment amongst Russian service providers regarding the twelve-month outlook for activity improved in October. The Business Expectations Index rose to its highest since June, and was only slightly weaker than its long-run average (74.4). More than half of all survey respondents expect activity to rise over the next twelve months, compared to only around 7% that anticipate a decline. Sentiment was strongest in Transport & Storage and Renting & Business Activities respectively.

## 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

The intellectual property rights to the HSBC Russia Services PMI provided herein is owned by Markit Group. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Markit, PMI and Purchasing Managers' Index are all trademarks owned by The Markit Group.