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HSBC Russia Services PMI™ (with Composite PMI data)

Russian service sector growth strengthened in October

Summary

The latest HSBC survey data covering the Russian service sector indicated that business conditions improved at a stronger pace in October. At 55.6, the Business Activity Index signalled a second successive monthly rise in 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. A composite Output Index for manufacturing and services rose to 54.7, from 52.3 in September, despite a slower rise in manufacturing production (53.2).

Supporting the faster rise in services activity was a stronger gain in new business. The rate of expansion was broadly in line with the long-run survey average. Total new business rose more sharply, despite a softer gain in manufacturing new orders.

The volume of outstanding work held at Russian service providers declined in October, as it has in every month since September 2008. Backlogs at manufacturers also declined during the month.

Service sector employment 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. A rise in manufacturing employment led to a marginal overall increase in jobs across both sectors.

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. In manufacturing, input price inflation accelerated to a twenty-seven month high.

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. Manufacturers increased their charges at a much faster rate than service providers.

Survey data signalled growing optimism regarding the prospects for services 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.

Comment

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

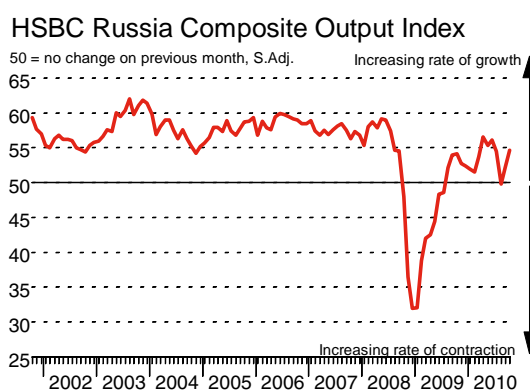
"The economy has completely wakened from the summer nap in October. Significant improvements in service business activity and new business are particularly encouraging against the backdrop of unexpectedly weak consumer demand data for September. Yet, we still talk about the return of the Russian economy to moderate growth rates, which are lower than the multi-year average.

Cost and inflation pressures in the economy eased somewhat in October remaining close to the post-crisis highs. At the same time, the inter-company divergence has increased: a bigger share of companies reported about a rise and a decline in their prices in October. In other words, companies more actively use the opportunity to raise prices in those sectors where demand is strong and/or competition is weak. This is primarily the case in manufacturing as opposed to services."

Key points

- Services Business Activity Index posted four-month high of 55.6.
- New business growth accelerated sharply.
- Composite Output Index rose to 54.7.

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.

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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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