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## HSBC Russia Services PMI™

Russian services activity growth maintained, but at softer pace.

### Key findings:

- Headline Business Activity Index eased to 54.1, from 55.6.
- Services employment rose for first time in four months.
- Inflation of both input and output prices accelerated.

The latest HSBC survey data covering the Russian service sector indicated that business conditions continued to improve in November, and supported a rise in employment in the sector. However, growth remained weaker than the pre-crisis trend, and inflationary pressures intensified.

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.

The Business Activity Index signalled a third successive monthly rise in Russian service sector output in November. However, some momentum was lost as the Index fell to 54.1, from 55.6. It also remained below its long-run trend of 56.8, indicating that growth in the sector has yet to reach pre-crisis levels. Prior to the financial crisis in the final quarter of 2008, the Index averaged 59.3. In line with the trend seen the previous month, activity growth was recorded in all sub-sectors except Transport & Storage.

Activity growth in the Russian service sector continued to be driven by increasing levels of new business in November. Incoming new work has risen for three successive months, although the rate of growth moderated in the latest period and remained weaker than the pre-crisis trend.

Following twenty-six successive months of decline, the volume

of outstanding business among Russian service providers was broadly unchanged in November. The relative lack of pressure on business capacity in the sector reflected below-trend growth of both new work and total activity.

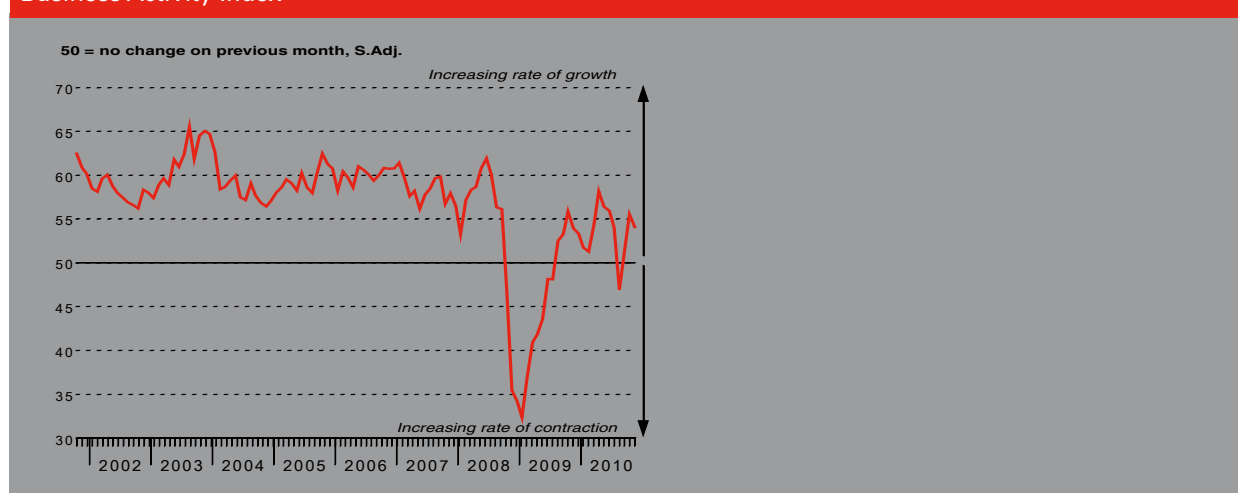
Service sector employment in Russia increased for the first time since July. Four out of six sub-sectors posted higher staffing in November compared to one month previously. The overall rate of job creation matched that seen in April, the fastest registered since the downturn. But the pace of employment growth remained much weaker than the pre-crisis average.

Inflationary pressures in the Russian service sector built up in November. Input prices rose at the fastest rate since May, with survey respondents reporting higher costs for wages, rents and fuel. By sub-sector, Transport & Storage posted the fastest rate of input price inflation.

In response to rising prices, and amid a reported improvement in pricing power, Russian service providers raised their charges in November. Moreover, the rate of output price inflation was the sharpest since January 2009. However, as was the case for input prices, output charge inflation remained subdued in the context of historic survey data.

The twelve-month outlook for services activity remained positive in November, with more than half of all respondents reporting expected growth of activity over the coming year. Sentiment nonetheless eased slightly since October, and remained slightly weaker than the long-run average.

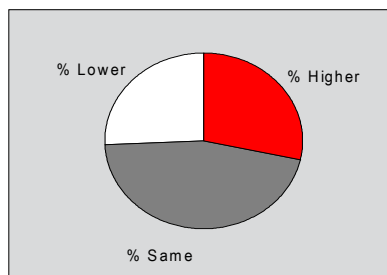
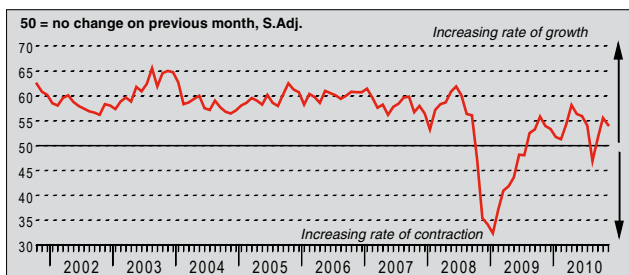
### Business Activity Index



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

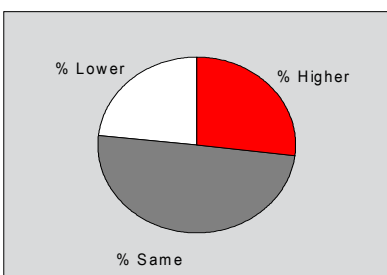
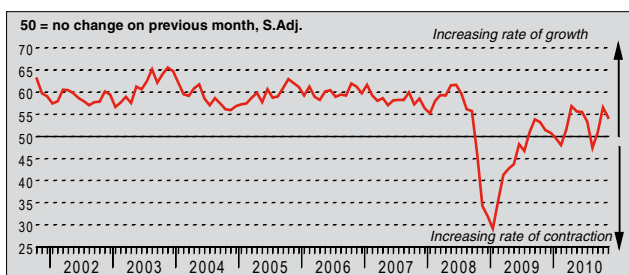
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



Services activity in Russia continued to expand in November. The seasonally adjusted Business Activity Index remained above the no-change mark of 50.0 for the third month running, following August's heatwave-induced blip. Higher activity was primarily attributed to a general improvement in market conditions. The rate of growth signalled by the latest figure was slightly sharper than the average over the past twelve months, but remained much weaker than the long-run trend seen prior to the financial crisis.

### New Business Index

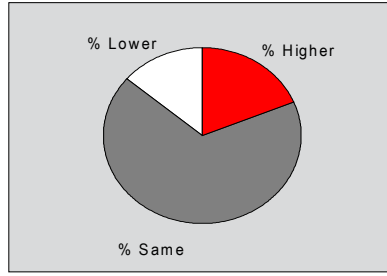
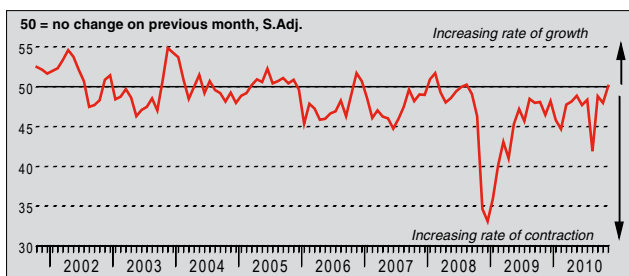
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



Receipts of new business by Russian service providers continued to grow in the latest survey period. That said, the rate of expansion moderated. Some firms reported successful marketing activity, while others noted only a gradual recovery in demand. The seasonally adjusted New Business Index eased from October's six-month high, and remained well below its long-run average (56.7). By sub-sector, new work rose sharply in Hotels & Restaurants and Renting & Business Activities, but fell in Transport & Storage and was broadly flat in Financial Intermediation.

### Outstanding Business Index

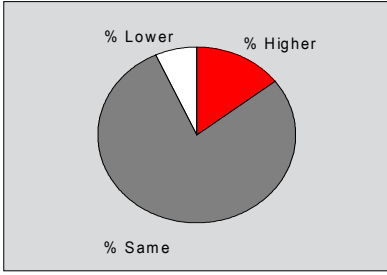
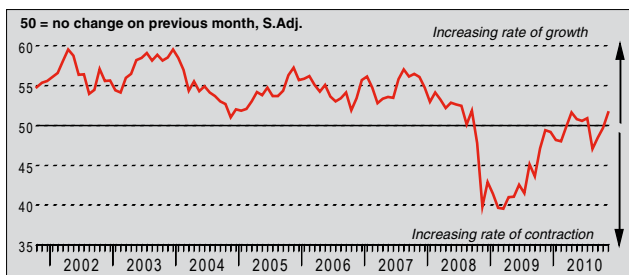
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



Having signalled falling backlogs in every month since September 2008, the seasonally adjusted Outstanding Business Index edged above the no-change mark of 50.0 in November. That said, the trend in outstanding business was broadly flat over the month, as growth of both new business and total activity eased. Three sub-sectors posted higher levels of outstanding business in November, namely Post & Telecommunications, Financial Intermediation and 'Other Services'. The steepest fall in backlogs was posted at Hotels & Restaurants.

### Employment Index

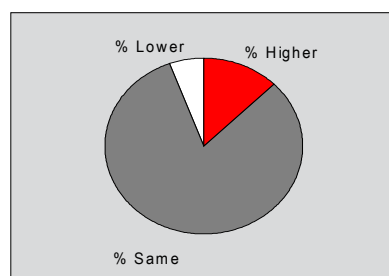
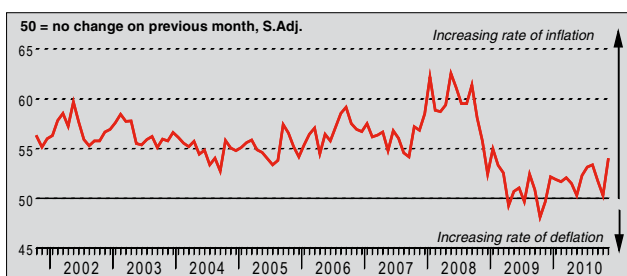
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



Russian service sector headcounts rose for the first time in four months in November. The seasonally adjusted Employment Index moved up for the third month running from August's eleven-month low. The latest figure matched April's post-crisis high, but remained below the long-run average for the series since October 2001 (52.9). Around 15% of companies reported higher staffing during the month, which they mostly linked to rising workloads. Four sub-sectors posted jobs growth, with the steepest gains seen in Post & Telecommunications and Renting & Business Activities respectively.

## Prices Charged Index

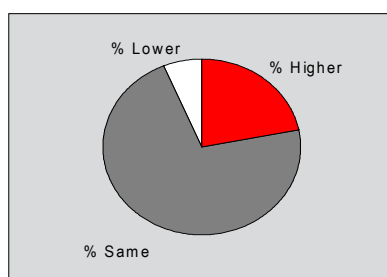
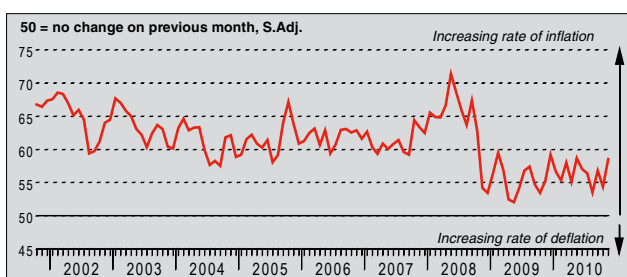
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



The rate of output price inflation in the Russian service sector accelerated in November. Having fallen to near-stagnation in October, the seasonally adjusted Prices Charged Index posted its biggest one-month gain since January 2008 in the latest period. The rate of charge inflation signalled was the fastest since January 2009, but remained weaker than the long-run series average. Firms mainly linked higher charges to improved pricing power in their markets. Charges rose across all six sub-sectors, with the steepest increases signalled in Transport & Storage.

## Input Prices Index

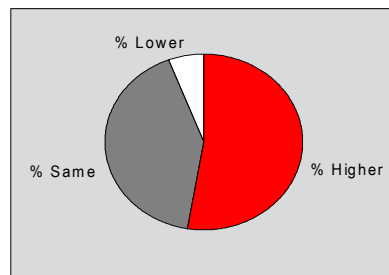
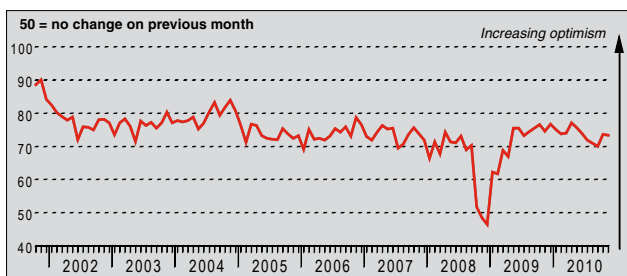
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



The rate of input cost inflation at Russian service providers accelerated in November. The seasonally adjusted Input Prices Index signalled the strongest cost pressures since May, and the one-month rise in the Index was the steepest since May 2008. Wages, rents and fuel were all reported as sources of upward pressure on input prices during the month. However, input price inflation remained weaker than the long-run survey average during the month (61.4).

## 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' expectations regarding business activity over the next twelve months remained firmly positive in November. The Business Expectations Index eased slightly since October, and was broadly in line with the trend for 2010 so far. It remained below its long-run average (74.4), however. This reflects some firms' expectations that the recovery in market conditions will be gradual. By sub-sector, business sentiment was strongest in Transport & Storage, Hotels & Restaurants and Financial Intermediation 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.

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