

## HSBC Russia Services PMI™ (with Composite PMI data)

Russian services activity growth maintained, but at softer pace

### Summary

The latest HSBC survey data covering the Russian service sector indicated that business conditions continued to improve in November, but that growth in the sector had yet to reach pre-crisis levels.

The Business Activity Index signalled a third successive monthly rise in Russian service sector output, but fell to 54.1, from 55.6. Readings above 50.0 signal growth of activity compared to one month previously, and below 50.0 contraction. It also remained below its long-run trend of 56.8. The Composite Output Index, also covering manufacturing, recorded 53.6, from 54.7. Manufacturing output growth slowed further during the month (52.6).

Services activity growth 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. Total new work across both sectors also rose more slowly, as manufacturing new order growth lost further momentum.

Following twenty-six successive months of decline, the volume of outstanding business among Russian service providers was broadly unchanged in November. Meanwhile, manufacturing backlogs fell sharply.

Service sector employment in Russia increased for the first time since July. The rate of job creation matched that seen in April, the fastest registered since the downturn. Private sector employment rose at a faster rate, despite a flat trend in manufacturing workforces.

Inflationary pressures in the Russian private sector built up in November. Service providers' input prices rose at the fastest rate since May, with respondents reporting higher costs for wages, rents and fuel. Manufacturing input price inflation also accelerated sharply, reaching its highest since April 2008.

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. Manufacturers raised tariffs at the fastest rate since July 2008.

### Comment

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

*"Service sector growth failed to sustain robust post-summer dynamics in November, moderating to a level that is pretty below the multi-year average. It appears that service providers found this level acceptable in the new post-crisis reality, and therefore increased their staffing in November after three months of labour shedding.*

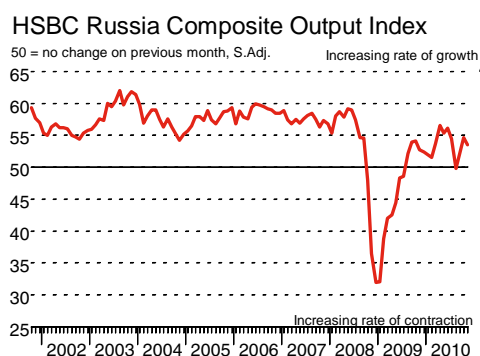
*"Importantly, the positive yet moderate level of economic activity in the service sector, and the economy in general, does not preserve relative price stability anymore. Firms reported improved pricing power and hiked their charges. The Composite Output Prices Index's gain in November was the second-biggest in the series' history, speaking for sharp and widespread price growth acceleration in the economy.*

*"In a nutshell, in November we got empirical evidence that the economy is aligned with a 'moderate growth-high inflation' scenario, which remains our baseline scenario for end-2010/2011. Traditional growth-stimulating policy would likely end up with higher inflation rather than faster growth in these circumstances."*

### Key points

- Services Business Activity Index eased to 54.1, from 55.6.
- Composite Output Index eased to 53.6, from 54.7.
- Inflation of input and output prices accelerated across both sectors.

### 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](mailto:economics@markit.com).

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