HSBC Purchasing Managers' Index 2010

compiled by markit

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HSBC Russia Services PMI™

Russian services activity growth accelerated in December.

Key findings:

- Headline Business Activity Index improved to seven-month high of 56.4.
- Services new business rose at faster pace.
- Employment growth maintained.

HSBC survey data covering the Russian service sector indicated that the recovery in business conditions gathered momentum during the final month of 2010. Activity rose at the fastest rate since May, driven by a stronger gain in new business. Meanwhile, inflation rates for input and output prices were broadly similar to those posted in November, remaining weaker than their respective historic survey averages.

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 posted 56.4 in December, up from 54.1 in November. That signalled the fastest rate of activity growth since May, and extended the current sequence of expansion to four months. That said, the Index has yet to reach its trend level prior to the financial crisis (59.3 on average from October 2001 through to September 2008).

The volume of incoming new business received by Russian service providers continued to expand in December, and at a faster rate than in the previous month. New contracts rose particularly strongly in the Post & Telecommunications and Financial Intermediation sub-sectors during the latest period. However, the overall rate of new business expansion has yet to reach the levels seen prior to the financial crisis in late-2008.

The faster rise in total activity in December also resulted in a modest decline in the volume of outstanding business held in the service sector. A number of companies reported that they had been better prepared for intakes of new work during the month, following efforts to improve productivity.

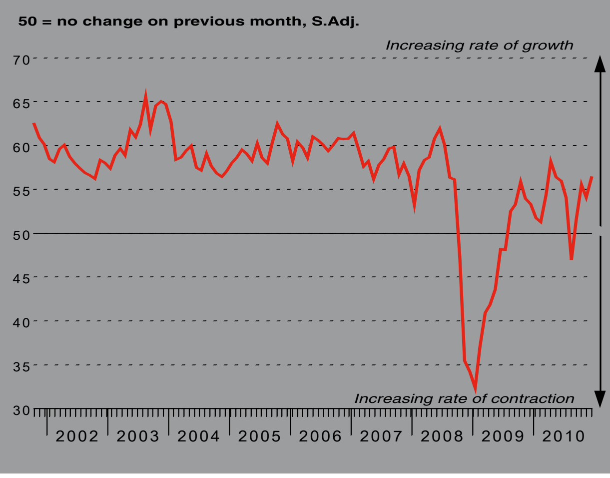
The improving business climate in the Russian service sector was highlighted by a further rise in employment in December. The workforce has expanded six times in the past nine months, and the latest rate of job creation was the strongest since September 2008. In line with the trend for activity, however, employment growth was weak compared to the pre-crisis trend.

Average input prices paid by Russian service providers registered their steepest increase for twelve months in December. Key sources of growing cost burdens included fuel and utility prices. However, input price inflation remained below the long-run survey average in the latest period.

Service providers raised their output prices for the thirteenth successive month in December. The rate of charge inflation was only slightly weaker than November's twenty-two month high, but remained soft in the context of historic survey data.

Sentiment regarding the outlook for business activity strengthened to a seven-month high in December. More than half of all respondents forecast growth over the course of 2011, linked to a wider economic recovery, the development of new services and increased capacity.

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.

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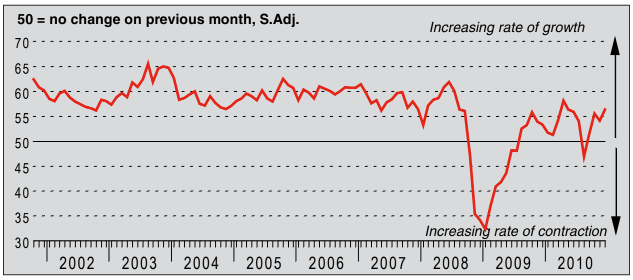
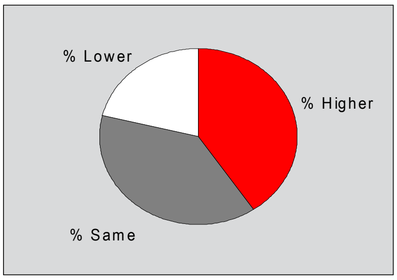
Business Activity Index

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.

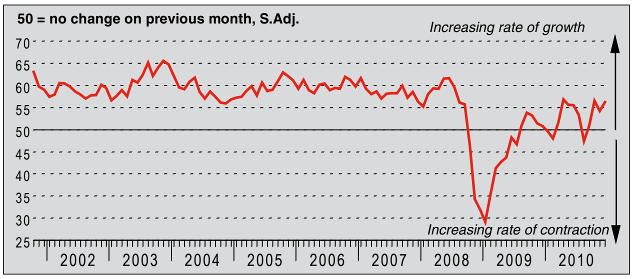


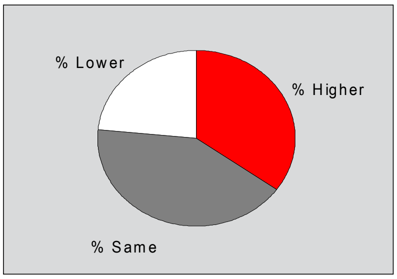


Private sector services activity in Russia rose at a robust pace in December, linked to higher intakes of new orders. The current sequence of expansion now stretches to four months. Moreover, the seasonally adjusted Business Activity Index rose on the month, to signal the fastest rate of growth since May. It was broadly comparable to its long-run average of 56.8, but remained weaker than the trend seen prior to October 2008 (59.3). Activity growth was recorded across all sub-sectors except Hotels & Restaurants. The steepest rise was seen in Financial Intermediation.

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.

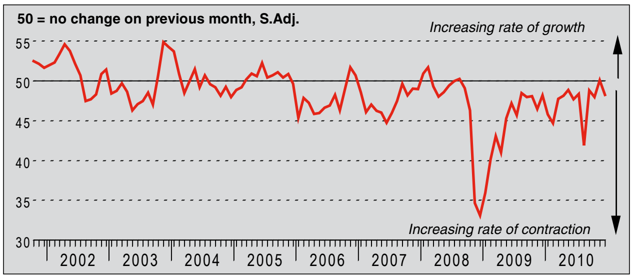


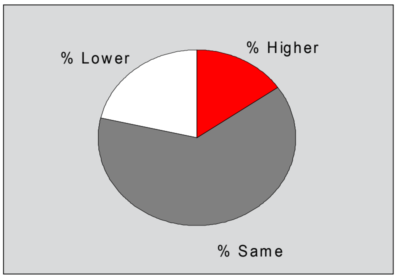


December data signalled faster growth of new contracts placed with Russian service providers. Remaining above the no-change mark of 50.0 for the fourth successive month, the seasonally adjusted New Business Index rose since November to signal an acceleration in the pace of expansion. The rate of growth was the third-fastest in 2010, but remained softer than the trend pace prior to October 2008 (59.5). By sub-sector, growth was fastest in Post & Telecommunications and Financial Intermediation respectively.

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.

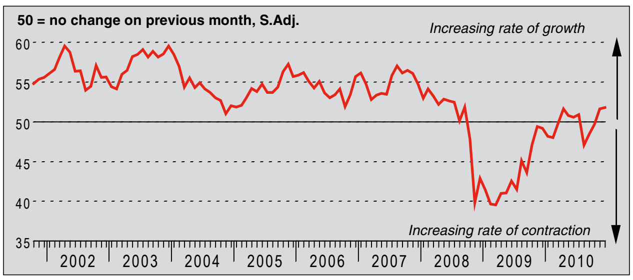


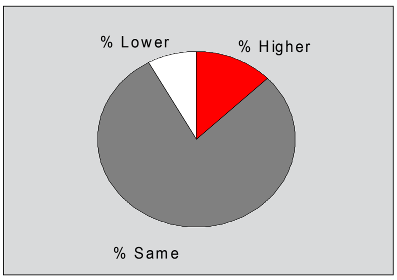


Having been broadly flat in November, the volume of outstanding business held in the Russian service sector declined in the final month of 2010. The seasonally adjusted Outstanding Business Index fell below neutrality, but signalled only a modest rate of contraction. It was broadly in line with its long-run trend level of 48.4 during the latest period. Falling backlogs were partly linked to improved productivity. Outstanding business declined in all sub-sectors except Post & Telecommunications and Financial Intermediation.

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).

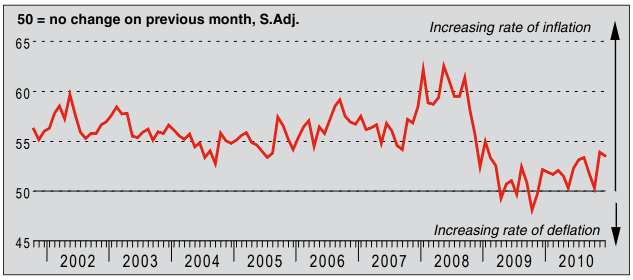


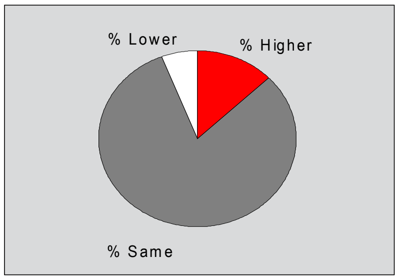


Russian service sector employment continued to increase in December, following November's modest gain. The seasonally adjusted Employment Index rose to its highest since September 2008, but remained weak in the context of historic survey data. Around 13% of survey respondents reported higher workforces compared to one month previously, generally attributing recruitment to expanding workloads and improving market conditions. Job creation was signalled in four sub-sectors, led by Financial Intermediation and Post & Telecommunications.

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.

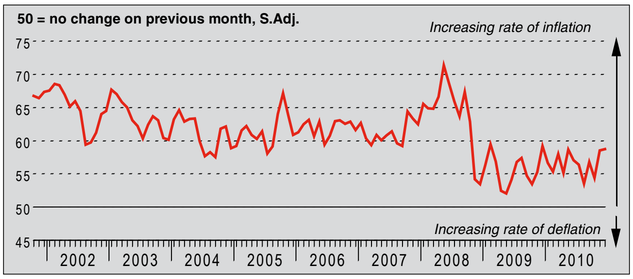


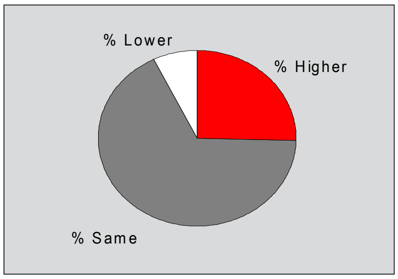


Russian service sector companies continued to raise their prices charged for services in December. Around 13% of survey respondents reported higher tariffs compared to November, linked to rising tax burdens and transport costs. The current sequence of charge inflation now stretches to thirteen months. The seasonally adjusted Prices Charged Index was at its second-highest since January 2009, but remained weaker than its long-run average of 55.5. By sub-sector, charge inflation was strongest in Post & Telecommunications and 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.

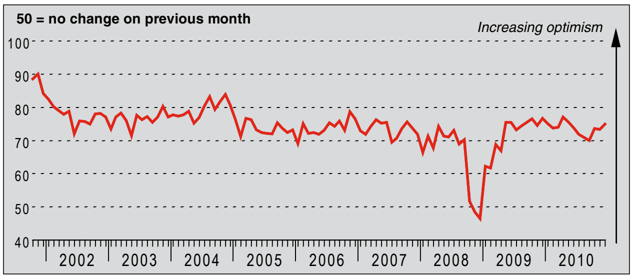


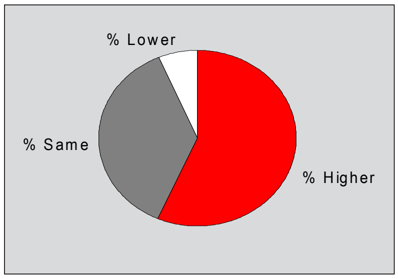


Average input prices paid by Russian service providers rose sharply in December. The seasonally adjusted Input Prices Index edged up from November, to signal the fastest rate of input cost inflation of any month in 2010. One-quarter of the survey panel reported higher input prices during the month, with fuel and utilities both widely mentioned as having contributed to inflationary pressure. Sub-sector data signalled that Transport & Storage and Hotels & Restaurants recorded the steepest rates of input price inflation.

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?





The Business Expectations Index remained well above the no-change mark of 50.0 in December, signalling positive sentiment in the Russian service sector regarding expected growth of activity in 2011. The overall degree of positive sentiment was the strongest since May. The latest anecdotal evidence listed improving market conditions, new services and planned investment in capacity as key reasons underpinning business confidence. More than half of firms expect growth of activity over the coming year, and the degree of optimism was slightly sharper than the survey's long-run average. Business expectations were strongest in Financial Intermediation.

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