

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

Russian services activity growth accelerated in December

### Summary

HSBC data covering the Russian service sector indicated that the recovery in business conditions gathered momentum in December. The Business Activity Index, a single-figure measure designed to track changes in services activity compared to one month previously, posted 56.4, up from 54.1 in November. The latest figure signalled the fastest rate of growth since May, but the Index yet to reach its trend level prior to the financial crisis. A composite Output Index for manufacturing and services rose to a six-month high of 55.8, supported by faster growth of manufacturing output during the month.

The volume of incoming new business received by Russian service providers continued to expand in December, and at a faster rate. However, the overall pace of new business expansion has yet to reach the levels seen prior to the financial crisis in late-2008. New work across both manufacturing and services rose at the fastest rate since July 2008.

The faster rise in services activity also resulted in a modest decline in the volume of outstanding business. A number of companies reported that they had been better prepared for intakes of new work during the month. Backlogs of work across both manufacturing and services fell at a weaker rate during the month.

The improving business climate in the Russian service sector was underpinned by a further rise in employment in December. The workforce has expanded six times in the past nine months. In line with the trend for activity, however, employment growth was weak compared to the pre-crisis trend. Overall jobs growth across both manufacturing and services was maintained for the third successive month, at the fastest rate since March 2008.

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. A composite Input Prices Index covering manufacturing and services reached a twenty-nine month high.

Service providers raised their output prices 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. Output price inflation across both manufacturing and services remained robust.

### Comment

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

*"In December Russia economic growth has accelerated to the average level observed in 2000s and the levels seen in 2Q 2010. In that respect, seasonally adjusted December economic indicators should be close to trend values. Benign December PMI report also sets up a positive outlook as the economy enters 2011 with strengthening momentum and in the growing oil price environment.*

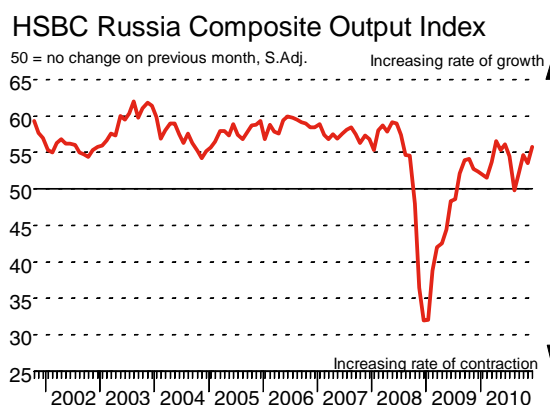
*"The downside of that story is negative inflation dynamics that accelerates towards its 'average' levels, which are well above official inflation forecasts for 2011. Judged by PMI Price Indexes, we expect PPI testing 20% y-o-y level and CPI reaching 10% y-o-y in the coming months.*

*"In a nutshell, looking forward we expect positive surprises from economic growth indicators and negative surprises from inflation indicators."*

### Key points

- Services Business Activity Index improved to seven-month high of 56.4.
- Composite Output Index rose to 55.8.
- New business across both manufacturing and services rose at fastest rate since July 2008.

### 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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