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## HSBC Russia Services PMI™

Russian service sector growth eased in January.

### Key findings:

- Services new business rose at slowest rate since last September.
- Steep rises in both input and output price inflation.
- Business expectations strongest in nine months.

HSBC survey data covering the Russian service sector indicated a slight loss of growth momentum at the start of 2011. Activity and new business both rose at softer rates, although firms continued to add to their workforces. The survey also signalled a surge in inflationary pressures, as both input price inflation and output charge inflation accelerated to a greater extent than in any previous survey period. Meanwhile, the twelve-month outlook for business activity improved in January.

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 54.2 in January, down from 56.4 in December. That signalled a fifth successive month of expansion, but at a weaker rate. 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 level of incoming new business received by Russian service providers increased in January. Intakes of new contracts have increased every month for the past five months, following a heatwave-related blip in August. The rate of growth was solid, but the slowest since last September and weak in the context of historic survey data. Data signalled sharp growth in finance and post & telecommunications, but subdued expansion elsewhere.

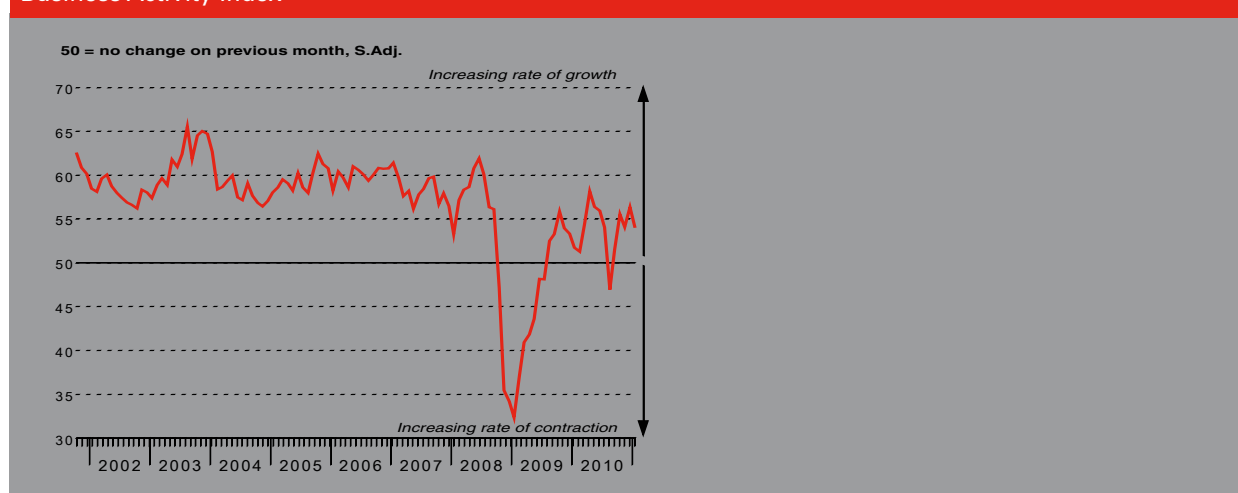
Russian service providers registered a further contraction in incomplete workloads in January. Excluding a marginal rise in November, outstanding business has fallen every month since September 2008, signalling spare capacity in the sector. The overall decline masked rising backlogs in finance and post & telecommunications.

Service sector employment in Russia expanded for the third month running. However, in line with the trends seen for total activity and new business, the rate of job creation remained weak in comparison with the historic survey trend. Firms operating in the hotels & restaurants sector cut workforces on average in January.

Input cost inflation in services strengthened for the third successive month in January, posting a survey-record acceleration in the latest period. Input prices rose at the fastest rate in twenty-eight months, driven by utilities, fuel, energy and labour costs. Companies operating in transport & storage again posted the steepest increases in average input costs during the month. Meanwhile, output price inflation also posted a series-record acceleration in January, reaching its highest since September 2008.

Business sentiment at Russian service providers improved in January, despite the slower gain in new contracts. The twelve-month outlook for activity growth was the strongest in nine survey periods. Expectations were most positive in the financial intermediation sector.

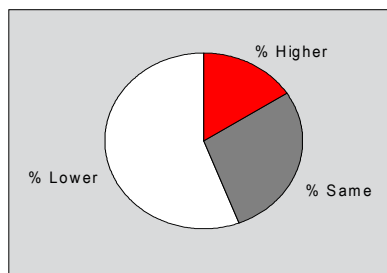
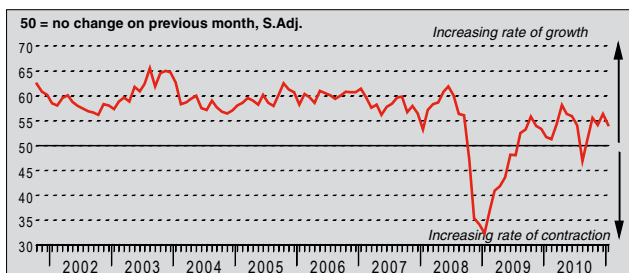
### Business Activity Index



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

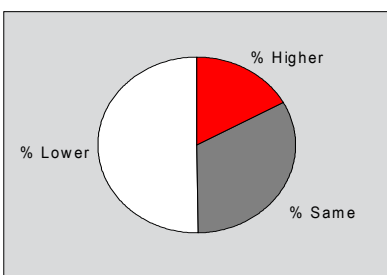
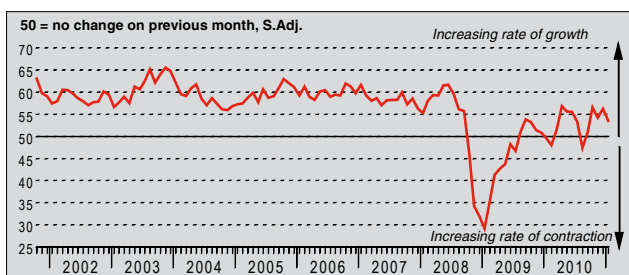
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



Growth of Russian service sector activity was maintained for the fifth successive month in January. Higher levels of activity were generally linked to incoming new business. That said, the rate of expansion eased since December, and remained relatively weak in the context of historic survey data. The seasonally adjusted Business Activity Index was below its long-run trend level of 56.8. Sub-sector data revealed strong growth in Financial Intermediation and Post & Telecommunications, but a sharp fall in Hotels & Restaurants.

### New Business Index

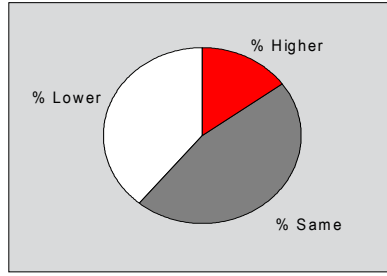
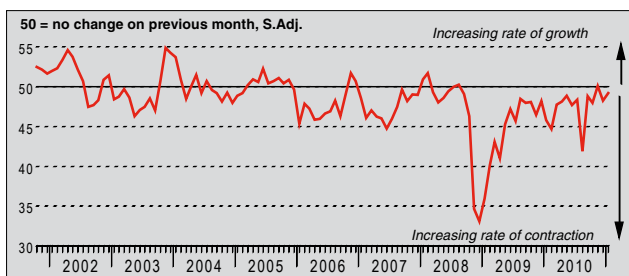
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



January data signalled a further increase in the volume of incoming new work received by Russian service providers. The current sequence of expansion now stretches to five months. The seasonally adjusted New Business Index remained above the no-change mark of 50.0, but signalled the weakest rate of expansion since September 2010. It was also below the long-run series average of 56.7. The fastest rates of new business growth were signalled in Financial Intermediation and Post & Telecommunications respectively.

### Outstanding Business Index

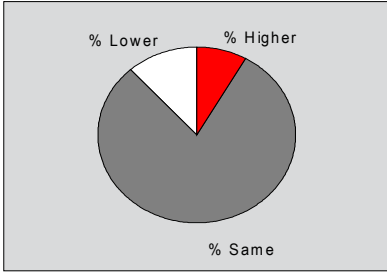
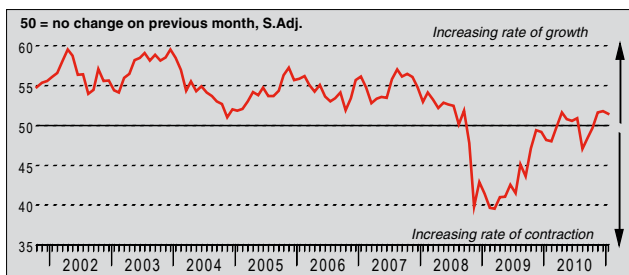
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



The volume of incomplete business in the Russian service sector declined for the second month running in January, indicating spare capacity at the start of the year. That said, the seasonally adjusted Outstanding Business Index moved closer to the no-change mark of 50.0, signalling only a marginal rate of contraction. Sub-sector data signalled that the sharpest reduction in outstanding business was in Renting & Business Activities, while strong growth was posted in Financial Intermediation and Post & Telecommunications.

### Employment Index

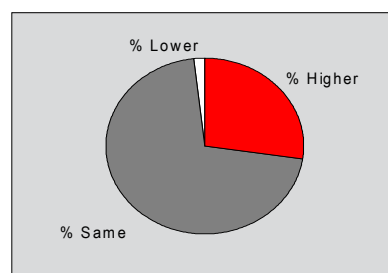
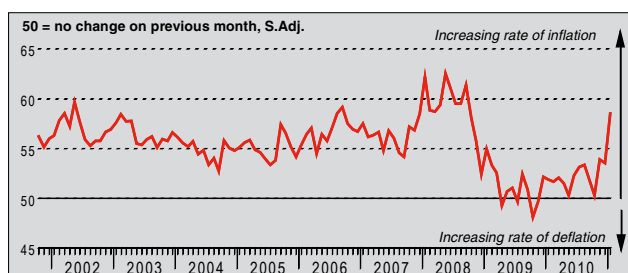
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



Although activity growth eased during January, it was nevertheless strong enough to generate a further rise in staffing in the services sector. The current sequence of job creation now stretches to three months, although the pace of expansion remained modest in the latest period. The seasonally adjusted Employment Index remained weaker than its long-run trend during the month. Job creation was signalled in all sub-sectors except Hotels & Restaurants. Financial Intermediation and Transport & Storage recorded the strongest increases in workforces.

## Prices Charged Index

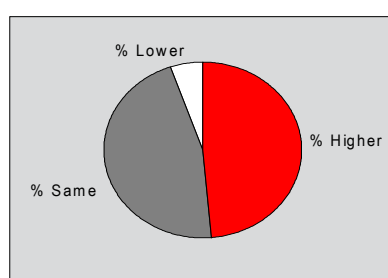
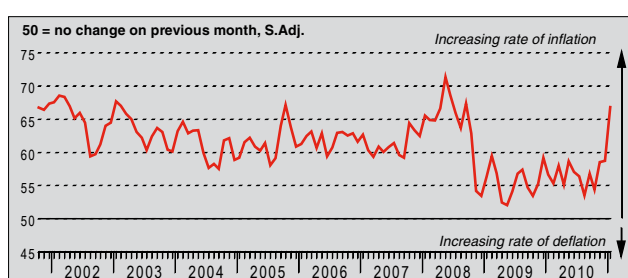
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Russian service providers passed on higher input prices to customers at a much faster rate in January. The seasonally adjusted Prices Charged Index posted a record month-on-month increase and signalled the fastest rate of output price inflation since September 2008. Output prices have risen every month since December 2009. Firms directly attributed rising charges to higher input prices. Charges were raised to the greatest extent in Post & Telecommunications and Transport & Storage.

## Input Prices Index

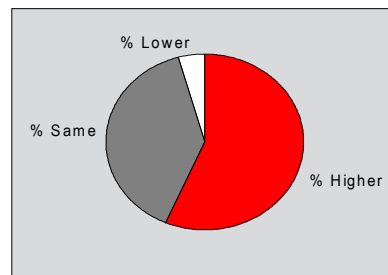
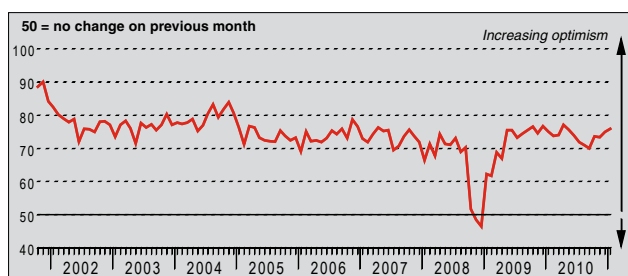
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



January data signalled a surge in input price inflation in the Russian service sector. The seasonally adjusted Input Prices Index posted its steepest one-month gain in the survey history, and indicated the strongest rate of inflation since September 2008. The Index was also greater than its long-run trend of 61.4 during the month. The latest anecdotal evidence linked upward pressure on firms' input prices to energy, labour taxes, utilities and fuel. By sub-sector, the strongest rates of input price inflation were indicated in Transport & Storage and Hotels & Restaurants.

## 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?



Although activity growth eased during January, the twelve-month outlook improved slightly. The Business Expectations Index rose to its highest since last April, and was greater than its long-run average (74.4). Positive sentiment regarding activity levels in twelve months' time was widely linked to improving an improving economic outlook, product innovations, growing client bases and new markets. Business expectations were strongest in Financial Intermediation and Post & Telecommunications.

## 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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