

HSBC Russia Services PMI™ (with Composite PMI data)

Russian service sector growth eased in January

Summary

HSBC survey data covering the Russian service sector indicated a slight loss of growth momentum at the start of 2011, as activity and new business both rose at softer rates. 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. However, the twelve-month outlook for business activity improved in January.

The Services 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. A Composite Output Index covering both services and manufacturing also eased on the month, to 54.6, despite a faster rise in manufacturing production (55.4).

The level of incoming new business received by Russian service providers increased in January. The rate of growth was solid, but the slowest since last September and weak in the context of historic survey data. Total growth of new business across both sectors also weakened, although manufacturing new orders rose at the fastest pace in nearly three years.

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. Manufacturers reported a steeper fall in backlogs than service providers during the month.

Service sector employment 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. Total employment across both sectors rose for the fourth successive month, with manufacturers adding staff at the second-fastest rate since August 2006.

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. Meanwhile, output price inflation also posted a series-record acceleration in January, reaching its highest since September 2008. Inflation of input and output prices in the combined manufacturing and service sector accelerated to 32- and 30-month highs respectively in January.

Comment

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

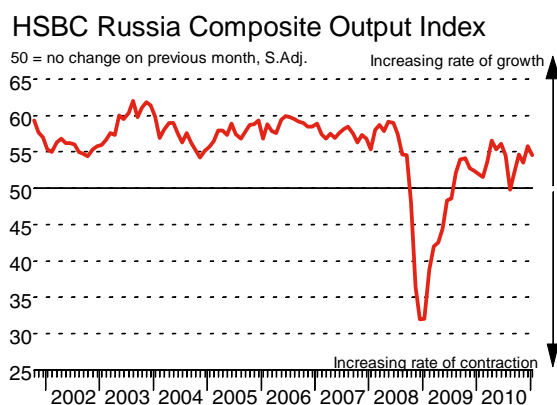
"Some moderation of economic growth momentum to below the long-run average in January comes as a gentle reminder about the sober post-crisis reality – that strong growth cannot be sustained for long, as was the case before the crisis. Yet, economic growth in January 2011 is stronger than that registered over 2010 as a whole, providing some optimism going forward – although it is most likely that higher commodity prices stand behind this.

"An unprecedented sharp acceleration of costs and price growth in the service sector and the economy at large is astonishing. With steadily growing yet subdued demand, it speaks for the deep entrenchment of inflationary expectations in economic agents' behaviour. The authorities risk losing control over inflation, which would either translate to permanently higher inflation or output losses should authorities try to regain control too quickly."

Key points

- Services activity rose at slower rate...
- ...as did the combined output of manufacturing and services.
- Inflationary pressures intensified in 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.

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