HSBC Purchasing Managers' Index 2011

compiled by markit

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HSBC Russia Services PMI™

Russian service sector growth moderated further in February.

Key findings:

- New business growth remained weaker than long-run trend.
- Input and output prices continued to rise at rapid rates.
- Business expectations softened to weakest in five months.

February survey data from HSBC covering the Russian service sector indicated a continued failure to build growth momentum in 2011. The rate of growth for total activity eased for the second month running, following another below-par rise in new business. Inflation of both input and output prices remained greater than the historic trends shown by the survey, and business sentiment regarding the longer-term outlook was the weakest in five months.

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 53.4 in February, down from 54.2 in January. The Index has fallen by 3 points in total during 2011 so far, signalling a sustained moderation in the pace of expansion. The Index remains well below its trend level prior to the financial crisis (59.3 on average from October 2001 through to September 2008), and the latest figure indicated the slowest rate of expansion since last September.

The lacklustre rate of activity growth in February was heavily influenced by another relatively muted rise in new workloads. Incoming new business grew for the sixth month running, but at a pace little-changed from January's four-month low. Financial intermediation and – to a lesser extent – post & telecommunications, drove expansion in new business during the month, while other sectors were subdued.

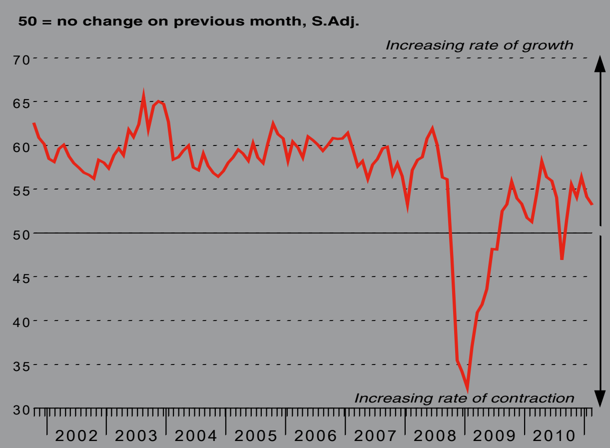
The volume of outstanding business in Russia's service sector declined further in February. Lower backlogs indicated spare capacity resulting from modest demand, although growth in incomplete business was indicated in financial intermediation and hotels & restaurants.

Workloads rose at a pace sufficient to generate higher employment in the service sector. That said, the rate at which headcounts increased remained modest and much slower than the trend achieved prior to the financial crisis. Job creation was most apparent in transport & storage, while workforces in hotels & restaurants shrank on average.

Cost pressures facing Russian service providers remained intense in February. The rate of input price inflation was slightly weaker than in January, but sharper than in any other period since September 2008. It was also strong in the context of historic survey data. Firms cited upward pressure on input prices arising from salaries, utilities, fuel and taxes in the latest period. There was evidence of second-round inflationary pressures in the latest survey, as service providers continued to raise their output prices at a rapid rate.

More than half the survey panel reported expectations that activity would rise over the next twelve months. However, the overall strength of sentiment in the service sector was the weakest in five months, and slightly below the long-run survey average.

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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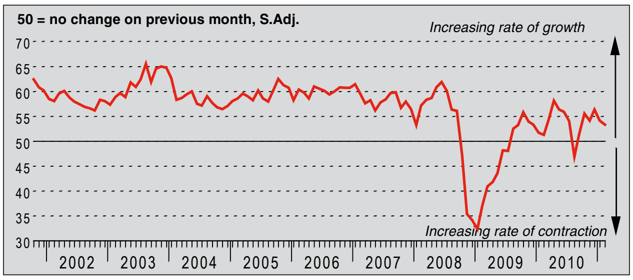
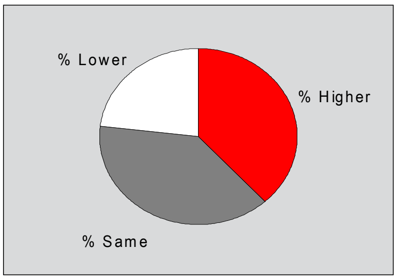
Business Activity Index

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.

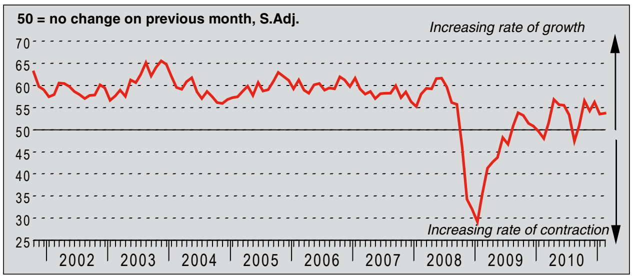


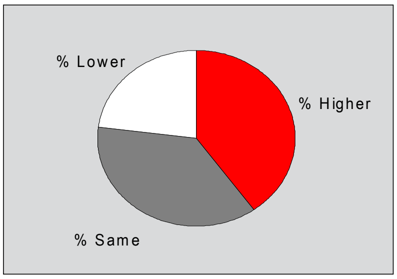


Business activity in Russia's service sector economy rose for the sixth successive month in February. Higher workloads were mainly attributed to growth of new contracts. The seasonally adjusted Business Activity Index fell for the second month in a row, however, to indicate the weakest rate of expansion since last September. It was also well below its historic average of 56.8. Sub-sector data suggested that financial intermediation achieved the fastest rate of growth in February, while activity in hotels & restaurants declined compared to January.

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.

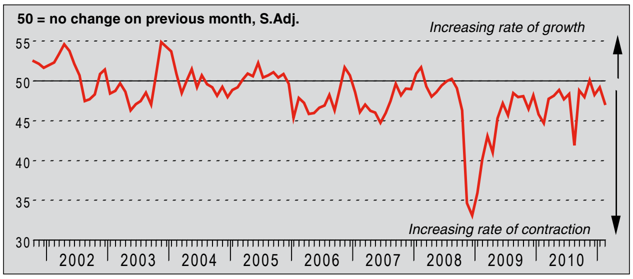


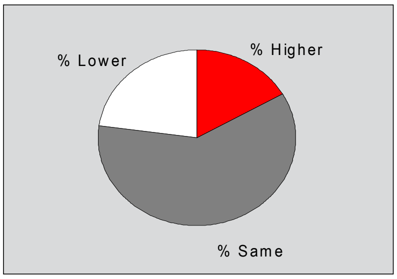


Service sector new business in Russia rose for the sixth consecutive month in February, as underlying market conditions continued to improve. That said, the rate of growth was little-change from January's four-month low. The seasonally adjusted New Business Index again failed to reach its pre-crisis trend level during the latest period (the Index averaged 59.5 prior to October 2008). New business rose in all areas except 'other services', but rates of growth were generally subdued except in financial intermediation.

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.

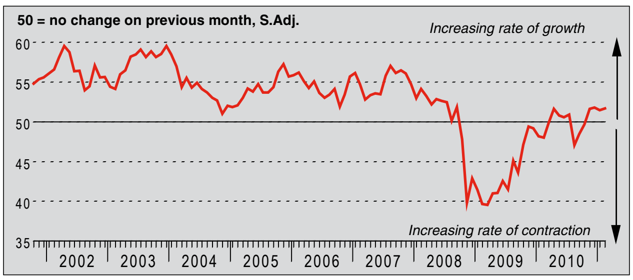


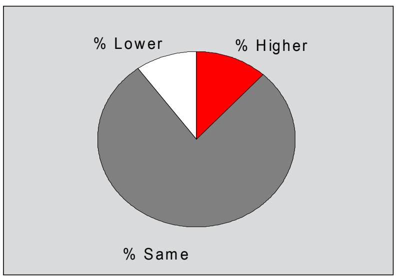


February data signalled further spare capacity in the Russian service sector. The seasonally adjusted Outstanding Business Index remained below the neutral threshold of 50.0 for the third successive month, and the latest figure indicated the fastest rate of contraction since August 2010. A number of companies reported that they had completed business from last year during the month. By sub-sector, renting & business activities recorded the fastest rate of depletion in February, while two sectors – financial intermediation and hotels & restaurants – posted rising backlogs.

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).

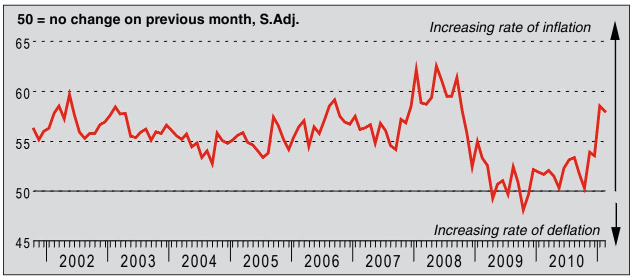


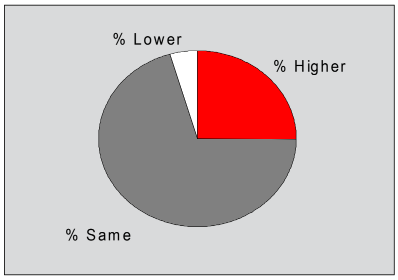


February data indicated a modest rise in service sector employment in Russia. Headcounts have increased for four successive months, and the latest rate of job creation was in line with the trend seen over this sequence. But the seasonally adjusted Employment Index remained below its historic average of 52.9, reflecting a similar pattern for activity and new business. Some firms reported recruiting for long-term business projects during the latest period. Five sub-sectors posted employment growth in February, the exception being hotels & restaurants.

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.

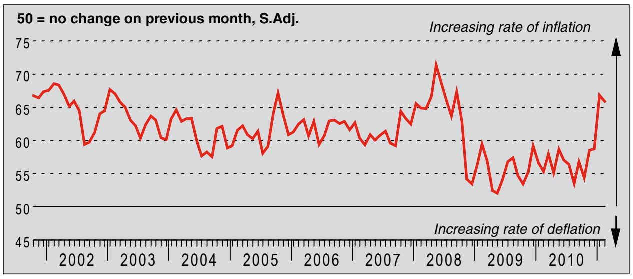


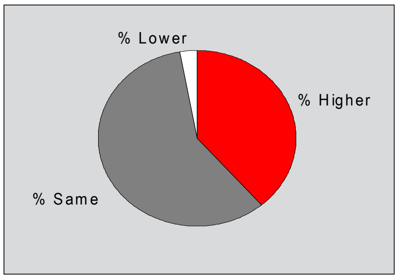


Russian service providers' charges rose sharply in February. The rate of inflation was only slightly weaker than January's twenty-eight month high, and the seasonally adjusted Prices Charged Index remained above its long-run average of 55.5 during the month. Firms reported passing on higher costs resulting from salaries, taxes and utilities to customers during the month. By sub-sector, charges rose at the strongest rates in transport & storage and 'other services'.

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.

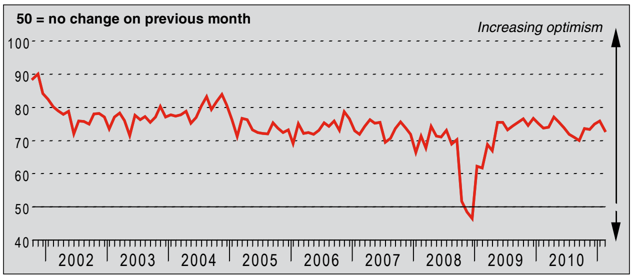


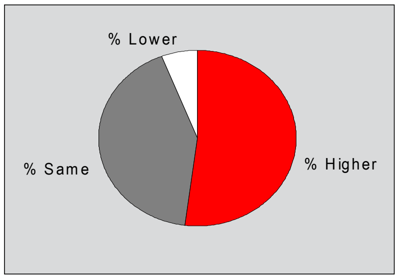


The rate of input price inflation in Russia's service sector remained rapid in February, despite easing slightly since January. Having posted a twenty-eight month high in January, the seasonally adjusted Input Prices Index fell slightly, but was nevertheless the second-highest since September 2008 and well above the long-run average of 61.4. Sources of higher input costs for service providers included salaries, fuel, utilities and greater tax burdens. Transport & storage registered the fastest rate of input price inflation of the six sub-sectors covered.

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?





Russian service providers remained confident regarding their expectations for growth in February. Reasons provided for optimism included global economic growth, new clients and improving domestic market conditions. More than half of all survey respondents expect growth of activity over the next twelve months, and the Business Expectations Index remained well above neutrality as a result. That said, the overall degree of sentiment in the sector was the weakest in five months, reflecting slower growth of new contracts during the latest period.

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