

Embargoed until: 08:00 (MOSCOW) 3 March 2011

HSBC Russia Services PMI™ (with Composite PMI data)

Russian service sector growth moderated further in February

Summary

February survey data from HSBC covering the Russian service sector indicated a continued failure to build growth momentum in 2011. In contrast, manufacturing production rose at the fastest rate since March 2008. Inflationary pressures in both sectors remained strong.

The headline figure for the services survey is the seasonally adjusted Business Activity Index, designed to track changes in total Russian services activity compared to one month previously. Readings above 50.0 signal growth, and below 50.0 contraction. The Index posted 53.4 in February and has fallen by 3 points during 2011 so far, signalling a sustained moderation in the pace of expansion. A composite Output Index for both manufacturing and services rose to 55.2, as manufacturing output rose at a sharper rate (58.5).

Lacklustre services growth in February was 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. Manufacturing new orders rose at the fastest rate since March 2008, and overall growth over both sectors picked up slightly since January.

The volume of outstanding business in Russia's service sector declined further in February, highlighting a general lack of demand pressure on capacity. A broadly similar rate of contraction was indicated in manufacturing, despite the sharp rise in new orders in that sector.

Both manufacturing and services registered growth of employment in February. Manufacturers expanded their workforces at a steeper rate than service providers. The overall rate of job creation across both sectors was the fastest since March 2008.

Cost pressures facing 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. Firms cited upward pressure on input prices arising from salaries, utilities, fuel and taxes. There was evidence of second-round inflationary pressures, as service providers continued to raise their output prices at a rapid rate. In manufacturing, inflation of both input and output prices eased to four-month lows but remained substantial nonetheless, linked to pressure from raw materials and energy.

Comment

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

"Economic growth momentum has strengthened close to its historic average level in February. Structurally, manufacturing grows faster while services expansion remains weaker than its long-term trend. Modest growth of private consumption seems to be restraining output growth in the services sector. At the same time, strong PMI employment indices sends a signal that an acceleration of wage growth, and therefore consumption, might be just around the corner."

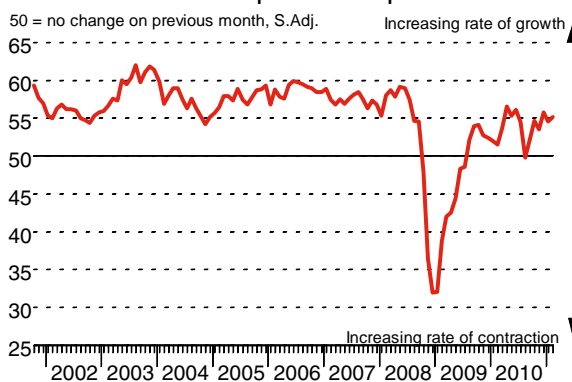
Cost pressures and inflation of output prices stay at very high levels, especially in manufacturing. It follows that any demand pick-up in services risks accelerating inflation further in the economy. Conversely, effective yet drastic policy actions aimed at reducing price growth might jeopardize output growth in both manufacturing and services. Apparently, the latter scenario is a non-starter during the election year."

Key points

- Services activity rose at slower rate...
- ...but manufacturing output increased at fastest pace since March 2008, resulting in faster growth of overall activity.
- Inflationary pressures remained sharp in both sectors.

Historical Overview

HSBC Russia Composite Output Index



For further information, please contact:

HSBC

Julia Molchanova
Telephone + 7 495 721 1515
Email HSBC_Russia_PR@hsbc.com

Markit

Trevor Balchin, Senior Economist
Telephone +44-1491-461-065
Email trevor.balchin@markit.com

Caroline Lumley, Corporate Communications
Telephone +44-20-7260-2047
Mobile: +44-7815-812162
Email caroline.lumley@markit.com

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.

HSBC Group:

Headquartered in London, HSBC is one of the largest banking and financial services organisations in the world. Its international network comprises some 8,000 offices in 87 countries and territories in Europe; Hong Kong; Rest of Asia-Pacific; the Middle East; North America and Latin America. With assets of US\$2,418 billion at 30 June 2010, HSBC is one of the world's largest banking and financial services organisations. HSBC is marketed worldwide as 'the world's local bank'.

HSBC Group operates in Russia through OOO HSBC Bank (RR). HSBC Russia provides a wide range of corporate banking, investment banking and financial markets products and services to corporate and institutional customers. In June 2009 HSBC Russia launched the bank's world-class retail offering. Private banking services with an access to global HSBC resources are provided in Russia through HSBC Private Bank Moscow office.

About Markit:

Markit is a leading, global financial information services company with over 2,000 employees. The company provides independent data, valuations and trade processing across all asset classes in order to enhance transparency, reduce risk and improve operational efficiency. Its client base includes the most significant institutional participants in the financial market place. For more information, see www.markit.com.

About PMIs:

Now available for 26 countries and key regions including the Eurozone and BRIC, Purchasing Managers' Indexes™ (PMIs™) have become the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to www.markit.com/economics.

The intellectual property rights to the HSBC Russia Manufacturing PMI provided herein is owned by Markit Group Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit or the Bank shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit or the Bank be liable for any special, incidental, or consequential damages, arising out of the use of the data. Markit, PMI and Purchasing Managers' Index are all trademarks owned by The Markit Group.

The HSBC Group means HSBC Holdings plc, the company established in accordance with and regulated by the laws of England and Wales, and/or HSBC Bank plc, the Bank established in accordance with and regulated by the laws of England and Wales, and every company that is a member of the group, controlled by this Bank.

OOO HSBC Bank (RR) («Bank», «HSBC»). General license issued by the Bank of Russia 3290. 2 Paveletskaya Square, Building 2, Moscow 115054 Russia.