HSBC Purchasing Managers' Index 2011

compiled by markit

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HSBC Russia Services PMI™

Russian service sector growth remained muted in March.

Key findings:

- Activity rose at relatively modest rate.
- Inflation of both input and output prices eased during the month.
- Strongest growth of services workforce since June 2008.

The rate of improvement in Russian service sector business conditions remained lacklustre in March, according to the latest PMI survey data from HSBC. The rates of growth for total activity and incoming new business both eased to six-month lows, and firms were less optimistic overall about the longer-term outlook. The service sector workforce did expand at a faster rate, however, and the latest survey also highlighted an easing of inflationary pressures.

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 53.3 in March, down fractionally from 53.4 in February. That represented a seventh successive monthly rise in services output, but at the weakest rate since last September. On a quarterly basis, the overall rate of expansion in Q1 slowed from that registered in Q4. The Index has so far failed to reach its pre-crisis trend level of 59.3, achieving a post-crisis high of 58.2 back in April 2010.

Slower growth in receipts of new business influenced the relatively muted rise in total services activity in Russia during the month. New business has increased twelve times in the past thirteen months, but the trend rate of expansion has been weaker than that seen prior to the global financial crisis in late-2008. The latest rise was the slowest since last September.

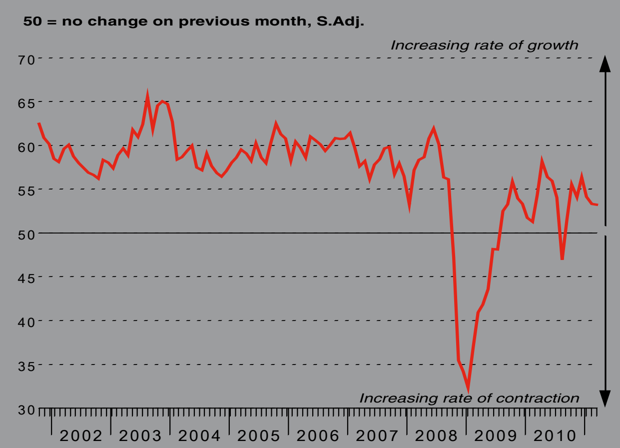
Accompanying the relatively modest growth of activity in the service sector in March was a slower rise in average input prices. The rate of input cost inflation remained marked, but was down further from January's high and slightly below the historic survey average. All six sub-sectors registered slower rises in input prices during the latest period. Transport & Storage continued to post the strongest overall increase, reflecting that sector's exposure to fuel prices. Firms linked higher input costs to salaries, taxes, fuel and utilities.

As a result of the easing in inflationary pressure on their costs, prices charged by Russian service providers grew at a slower rate in March. Charges have risen for sixteen consecutive months, but the latest increase was the weakest of 2011 so far.

The twelve-month outlook for the Russian service sector remained firmly positive in March, but the degree of sentiment eased slightly. Although more than half of survey respondents expect growth of activity at their units over the next twelve months, the overall degree of confidence was the weakest in six months.

Despite the slightly weaker prevailing sentiment, service providers expanded their workforces at a faster rate in March. Services employment has risen for five successive months, and the latest increase was the strongest since June 2008. That said, the volume of outstanding business at service providers continued to fall, suggesting spare capacity in the 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.

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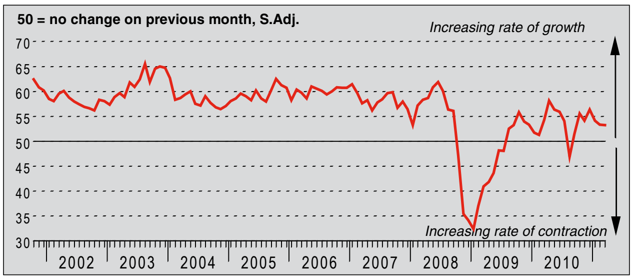
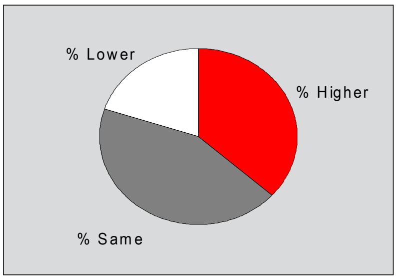
Business Activity Index

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.

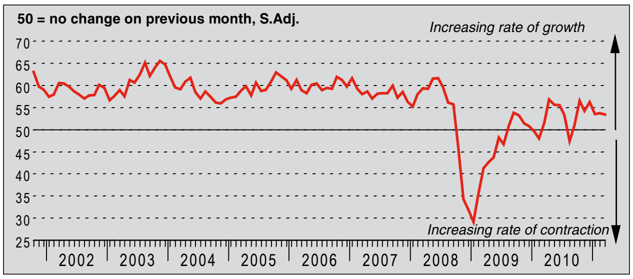


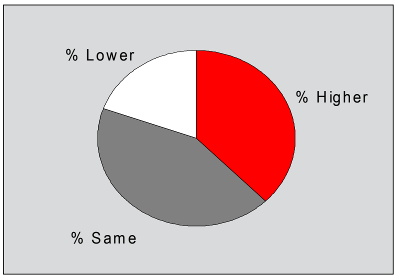


The rate of Russian service sector activity growth eased fractionally in March, to its lowest since last September. The seasonally adjusted Business Activity Index has remained above the no-change mark of 50.0 for seven months, but has yet to reach it's trend level of 59.3 prior to the global financial crisis in late-2008. The strongest growth rates were registered in Financial Intermediation and Hotels & Restaurants during the latest period.

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.

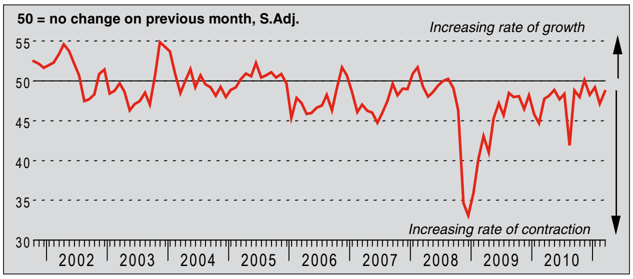


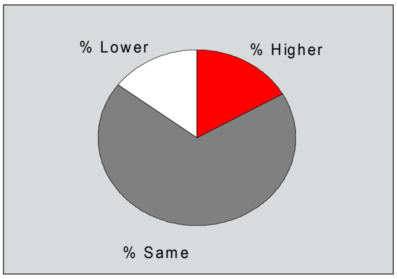


The volume of new business received by Russian service providers increased for the seventh successive month in March. A number of firms reported winning important new clients during the month. That said, the overall rate of expansion eased slightly to the weakest since last September. The trend rate of growth since new business intakes first started rising again in August 2009 has failed to match the strong pre-crisis level. In March, new work rose strongly in Financial Intermediation but fell in Post & Telecommunications.

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.

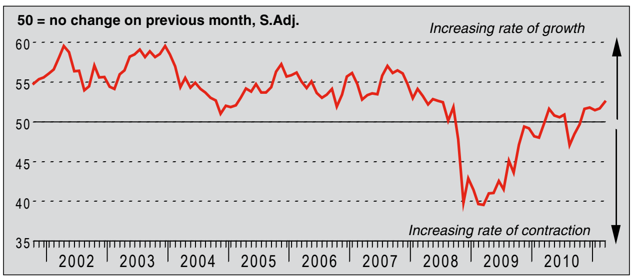


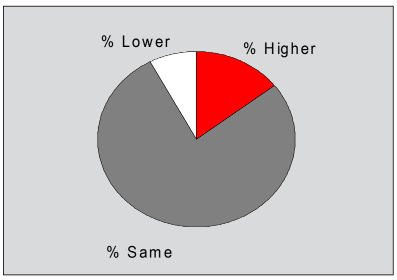


The seasonally adjusted Outstanding Business Index remained below the no-change mark of 50.0 for the fourth successive month in March, indicating declining backlogs at Russian service providers at the end of the first quarter. Some firms reported that incomplete workloads had fallen as a result of lacklustre intakes of new business. Declining backlogs were most prevalent in Post & Telecommunications and Renting & Business Activities.

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).

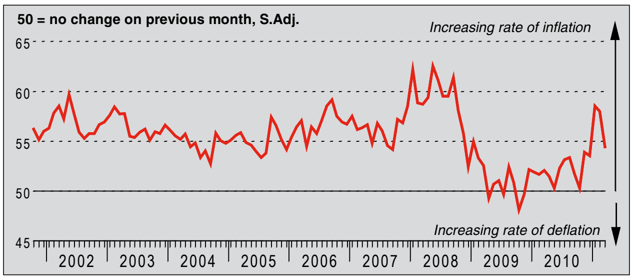


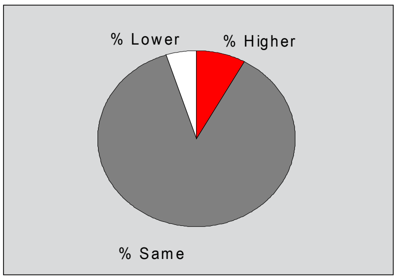


Service providers in Russia continued to raise their employment levels in March. Moreover, the rate of job creation in the sector was the fastest since June 2008. Employment has now risen for five months running. That said, the seasonally adjusted Employment Index remained below its long-run level of 52.9 in the latest period. Workforces expanded in four sectors, but declined since February in Hotels & Restaurants and Post & Telecommunications.

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.

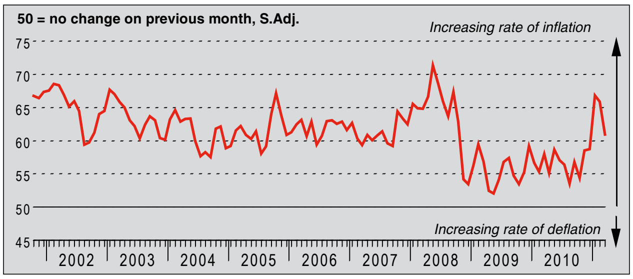


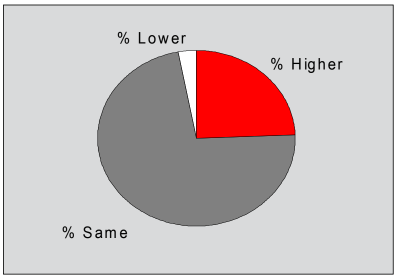


Russian service providers continued to pass on higher input costs to clients in March, albeit to a lesser extent than in February. Charges have risen for sixteen successive months. The seasonally adjusted Prices Charged Index eased further from January's twenty-eight month high, to a three-month low. It was also below its long-run average of 55.5 during the month. The latest sub-sector data signalled that output prices rose fastest in 'Other Services' and Transport & Storage in the latest period.

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.

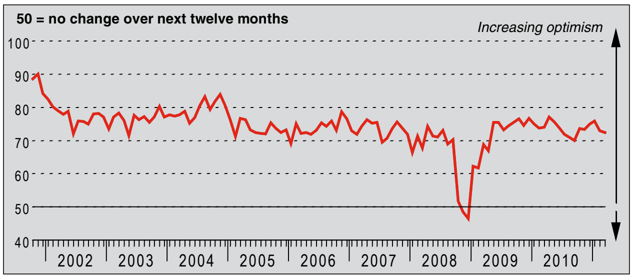


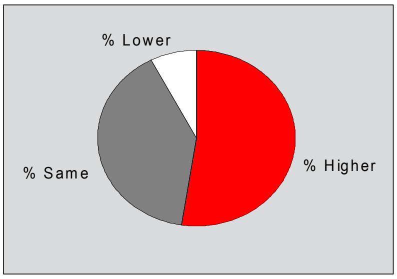


Average input prices faced by Russian service providers continued to rise sharply in March, albeit at a slower rate than in the first two months of the year. Around one-quarter of firms reported higher input prices, compared to just 3% that stated falling prices. The seasonally adjusted Input Prices Index eased to a three-month low, and was just below its long-run trend level of 61.4. The latest anecdotal evidence linked inflationary pressure to rising costs for salaries, fuel, taxes and utilities. Sub-sector data signalled slower rates of input price inflation in all six areas in March.

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 remain optimistic of activity growth over the next twelve months. Reasons given for expected gains in activity included the acquisition of new clients, improved credit markets and strengthening economic growth. More than half of all respondents reported expectations of growth, compared to around 8% that held negative views. That said, the degree of confidence weakened slightly, as the Future Expectations Index slipped to a six-month low. Sub-sector data suggested that Financial Intermediation held the best outlook for activity growth.

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