

HSBC Russia Services PMI™ (with Composite PMI data)

Russian service sector growth remained muted in March

Summary

The rate of improvement in Russian service sector business conditions remained lacklustre in March, according to the latest PMI survey data from HSBC. Manufacturing production continued to expand strongly, however, driven by the fastest rise in new orders for three years.

The HSBC Russia Services Business Activity Index posted 53.3 in March, from 53.4 in February. That represented a seventh successive monthly rise in services output, but at the weakest rate since last September. 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. The manufacturing Output Index printed 58.3 in March, signalling further marked expansion. Subsequently, the Composite Output Index covering both sectors posted 55.1, from 55.2 in February.

Slower growth in receipts of new business at service providers influenced the relatively muted rise in total services activity. 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. In contrast, manufacturing new orders registered the fastest increase since March 2008.

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. Manufacturers also saw an easing in the marked pace of input price inflation. The average rate of inflation across both sectors eased to a five-month low.

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. Manufacturers' output prices increased at a slightly faster rate, but the overall pace of inflation across both sectors eased to a three-month low.

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. The rate of manufacturing job creation remained stronger than that in services, but eased slightly since February. Overall, employment growth was the strongest since December 2007.

Comment

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

"Service sector drags overall economic growth lagging behind fast growing manufacturing, HSBC Russia Composite PMI showed in March. The good news is that service sector usually follows manufacturing trend with some time lag. If such relationship holds, one would expect service sector to improve its performance in the coming months. Stronger consumer demand backed by rising wages should trigger that. Despite some weakening of growth momentum in services in March, composite PMI indexes are consistent with GDP growth of 5% at present. Improvements in service sector performance could prompt growth acceleration to 6.0%, other things being equal."

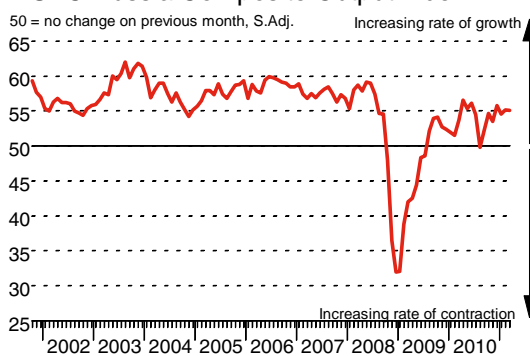
"Marked improvement in PMI price indexes in March still leaves serious concerns about inflation for two reasons. First, current levels of input and output prices indexes are still high by historic standards. Second, the likely improvement in service sector performance could intensify inflation."

Key points

- Combined output of manufacturing and services rose at a solid rate in March, led by manufacturing.
- Input price inflation eased across both sectors.
- Workforce growth across manufacturing and services the strongest since December 2007.

Historical Overview

HSBC Russia Composite Output Index



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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.

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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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