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HSBC Russia Services PMI™

Russian service sector growth picked up in April.

Key findings:

- Fastest expansions in both activity and new business for four months.
- Employment increased at strongest rate in over three years.
- Further marked rise in average input prices.

The rate of improvement in Russian service sector business conditions recovered some momentum in April, according to the latest PMI survey data from HSBC. The rates of growth for total activity and incoming new business both picked up to the fastest in 2011 so far, and employment rose at the strongest rate since March 2008. That said, growth remained relatively modest in the context of historic survey data.

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 55.8 in April, up from 53.3 in March. It was the strongest reading since December, and extended the current sequence of expansion to eight months. However, the Index remained below its long-run average of 56.7. Data suggested that, within the broad services economy, financial intermediation and hotels & restaurants were the fastest-growing areas in April.

Driving the sharper rise in total activity in April was a stronger increase in incoming new business. Intakes of new work have risen every month since last September, and the pace of expansion in the latest period was the fastest in four months.

Although new business growth strengthened in April, the volume of outstanding work fell at a faster rate. Incomplete

business has declined every month since last December, reflecting the relatively modest increases in total activity compared to the trend shown over the survey history.

Russia's service sector workforce grew for the sixth month running in April. Moreover, the rate of expansion accelerated further to the fastest since March 2008. It was also slightly sharper than the long-run trend for the survey. Recruitment growth was strongest among firms operating in the 'other services' and financial intermediation categories.

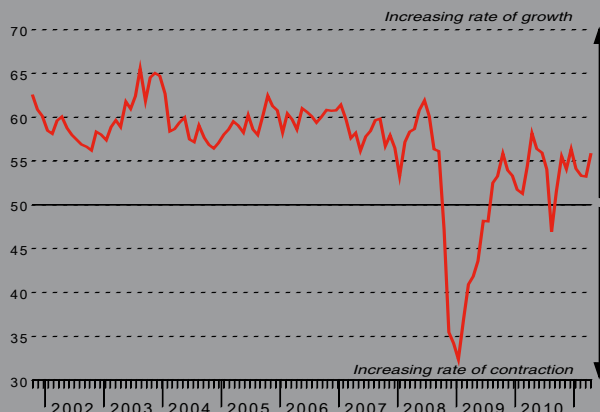
Input price inflation accelerated in April, having eased to a three-month low in March. Fuel, rents and salaries were often reported by firms as being key sources of inflationary pressure during the month. As was the trend over the first quarter, the overall rate of increase was strong in the context of historic survey data.

A strong rate of input price inflation led to a further increase in average prices charged by Russian service providers in April. That said, the rate of output price inflation was unchanged from March's three-month low, and slightly weaker than the long-run survey average.

Service sector business sentiment remained robust in April. Over 50% of firms expected growth of activity over the forthcoming twelve months, compared to around 7% that anticipated contraction. A number of companies linked optimism during the month to an expected stabilisation of Russian economic growth, and the development of new product ranges.

Business Activity Index

50 = no change on previous month, S.Adj.



Summary of Survey Findings

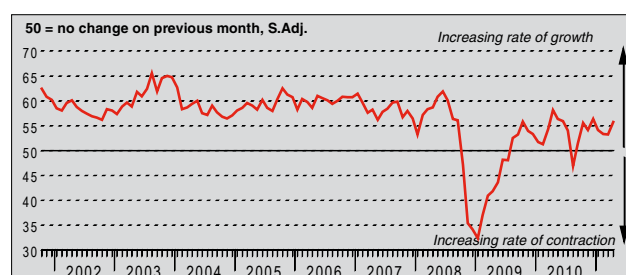
	Current Index	Previous Index	Change signalled
Business Activity	55.8	53.3	Solid expansion (faster than March)
New Business	54.8	53.5	Solid expansion (faster than March)
Backlogs of Work	47.0	48.7	Solid contraction (faster than March)
Employment	53.2	52.6	Modest expansion (faster than March)
Prices Charged	54.4	54.4	Solid inflation (same rate as in March)
Input Prices	62.3	61.0	Sharp inflation (faster than March)
Expectations	73.8	72.4	Optimistic outlook (more positive than March)

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.

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.

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2010	Nov	28.5	45.8	25.7	2.8	51.4	54.1
	Dec	40.5	38.3	21.1	19.4	59.7	56.4
2011	Jan	15.9	28.3	55.8	-40.0	30.0	54.2
	Feb	38.2	38.7	23.1	15.2	57.6	53.4
	Mar	36.6	43.4	19.9	16.7	58.4	53.3
	Apr	42.3	39.9	17.8	24.5	62.2	55.8

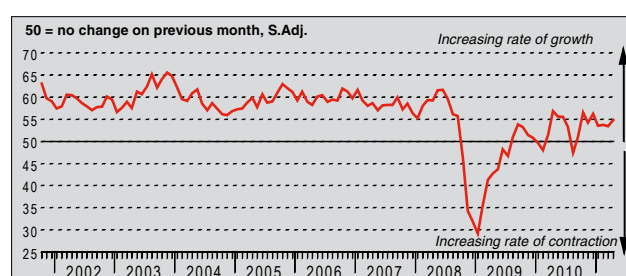


Private sector services activity in Russia grew for the eighth successive month in April. Higher workloads were mainly linked to growing intakes of new business. Having signalled weakening growth throughout the first quarter, the seasonally adjusted Business Activity Index rose to a four-month high. That said, it remained below its long-run average of 56.7. In line with the recent trend, Financial Intermediation continued to post the strongest activity growth. Business activity in Post & Telecommunications fell slightly.

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.

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2010	Nov	27.0	49.8	23.2	3.7	51.9	54.2
	Dec	34.9	41.7	23.4	11.5	55.8	56.3
2011	Jan	16.9	32.8	50.3	-33.4	33.3	53.6
	Feb	40.1	37.0	23.0	17.1	58.6	53.8
	Mar	37.7	42.8	19.5	18.2	59.1	53.5
	Apr	36.7	46.7	16.6	20.2	60.1	54.8

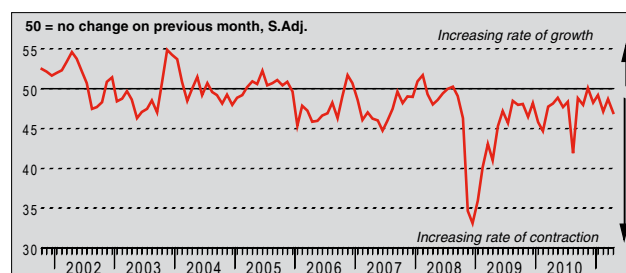


April data signalled a solid increase in new work at Russian service providers. The current sequence of growth now stretches to eight months. Moreover, the seasonally adjusted New Business Index pointed to the strongest rate of expansion of 2011 so far. That said, growth remained weak compared to the long-run survey average. The fastest increases in new business were recorded in Hotels & Restaurants and 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.

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2010	Nov	18.7	67.5	13.8	4.9	52.5	50.1
	Dec	15.3	63.4	21.4	-6.1	46.9	48.3
2011	Jan	15.0	46.0	39.0	-24.0	38.0	49.2
	Feb	16.7	60.6	22.8	-6.1	46.9	47.2
	Mar	16.6	68.6	14.7	1.9	51.0	48.7
	Apr	15.7	64.5	19.7	-4.0	48.0	47.0

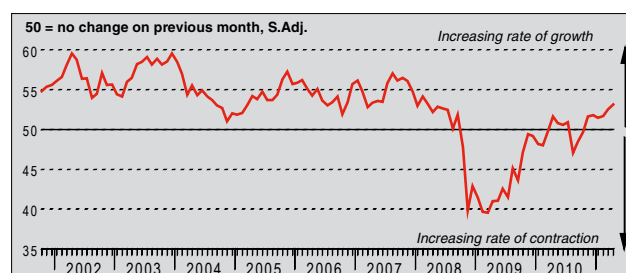


The volume of incomplete business held by Russian service providers fell for the fifth month running in April. Moreover, the rate of depletion was the sharpest over this sequence. Outstanding business declined in four sub-sectors during the month, with by far the steepest rate of contraction seen in Post & Telecommunications. The sustained overall fall in backlogs across the sector reflected the historically modest pace of new business growth in recent months, which resulted in spare business capacity.

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).

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2010	Nov	14.5	78.6	6.8	7.7	53.8	51.7
	Dec	12.8	79.2	8.1	4.7	52.4	51.8
2011	Jan	8.2	80.1	11.7	-3.5	48.3	51.5
	Feb	11.8	78.1	10.1	1.7	50.9	51.7
	Mar	14.5	77.8	7.8	6.7	53.4	52.6
	Apr	15.6	76.4	8.1	7.5	53.8	53.2

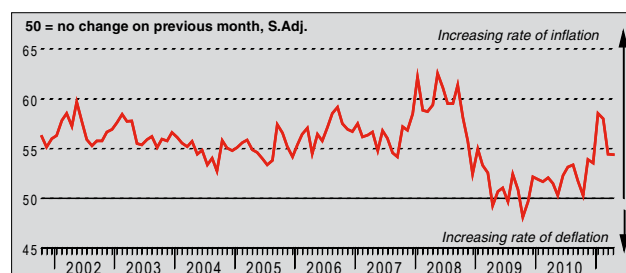


Service sector employment in Russia rose for the sixth consecutive month in April. Moreover, the rate of job creation strengthened for the third month in a row, as signalled by a further rise in the seasonally adjusted Employment Index. The latest figure indicated the sharpest expansion of the workforce since March 2008. Firms linked recruitment to rising business requirements and the development of new services. Jobs growth was registered in five out of six sub-sectors, led by 'Other Services' and Financial Intermediation.

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.

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2010	Nov	12.5	81.8	5.7	6.8	53.4	53.9
	Dec	12.8	81.2	5.9	6.9	53.5	53.6
2011	Jan	27.3	70.9	1.8	25.5	62.8	58.6
	Feb	25.1	70.3	4.6	20.6	60.3	58.0
	Mar	8.1	87.0	5.0	3.1	51.5	54.4
	Apr	13.0	79.0	8.0	5.0	52.5	54.4

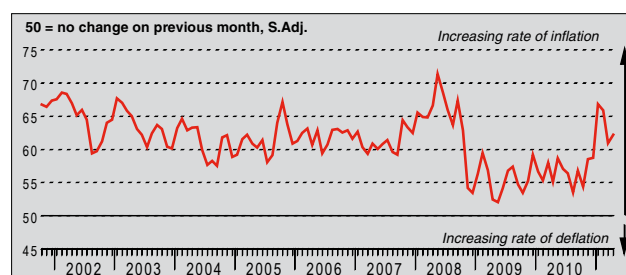


Russian service providers continued to raise their prices charged in April. Higher tariffs continued to be linked to rising input prices, and the current sequence of inflation now stretches to seventeen months. Though solid, the rate of output price inflation was unchanged from March's three-month low, and slightly weaker than the long-run survey average. Charges rose in all sub-sectors except Financial Intermediation.

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.

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2010	Nov	21.9	71.8	6.3	15.6	57.8	58.6
	Dec	25.4	67.3	7.2	18.2	59.1	58.8
2011	Jan	48.6	46.1	5.4	43.2	71.6	66.9
	Feb	38.7	58.4	2.9	35.9	67.9	65.9
	Mar	24.4	72.7	3.0	21.4	60.7	61.0
	Apr	25.2	72.0	2.7	22.5	61.2	62.3

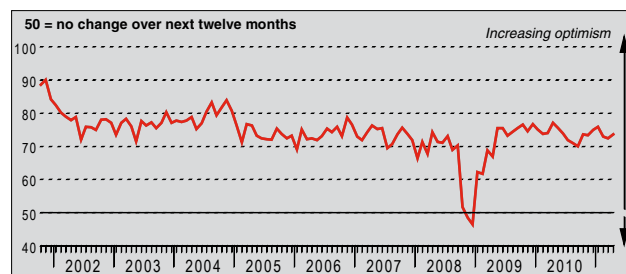


Average input prices paid by Russian service providers continued to rise sharply in April. The seasonally adjusted Input Prices Index moved up from March's three-month low, and was greater than its long-run average during the month. Around one-quarter of survey respondents reported higher input prices compared to one month earlier, commonly reporting rents, salaries, fuel and taxes as having added to cost pressures. Inflationary pressures were strongest in 'Other Services' and Transport & Storage.

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?

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2010	Nov	52.7	41.5	5.9	46.8	73.4	n/a
	Dec	56.6	37.0	6.4	50.2	75.1	n/a
2011	Jan	56.5	39.1	4.4	52.1	76.0	n/a
	Feb	52.1	42.0	5.9	46.1	73.1	n/a
	Mar	52.5	39.9	7.6	44.9	72.4	n/a
	Apr	54.7	38.1	7.2	47.5	73.8	n/a



Russian service providers were, on average, confident that activity would grow over the forthcoming twelve months. The Business Expectations Index remained well above the neutral level of 50.0, and rose for the first time since January to signal a strengthening of sentiment. More than half of all firms reported expectations of activity growth, mainly linked to an expected stabilisation of the Russian economy and expansion into new markets. The sectors with the best outlooks included Hotels & Restaurants, Financial Intermediation and Transport & Storage.

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.

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