

HSBC Russia Services PMI™ (with Composite PMI data)

Russian service sector growth picked up in April while manufacturing slowed.

Summary

The rate of improvement in Russian service sector business conditions recovered some momentum in April while manufacturing slowed, according to the latest PMI survey data from HSBC. The rate of growth of services activity picked up to the fastest in 2011 so far. In contrast, manufacturing production rose at the weakest rate for five months. Meanwhile, overall inflationary pressures eased but remained relatively strong.

The Services Business Activity Index posted 55.8 in April, up from 53.3 in March. Readings above 50.0 signal growth of activity compared to one month previously, and below 50.0 contraction. 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. The equivalent Manufacturing Output Index posted 54.7, while a composite Output Index for both sectors registered 55.4, a four-month high.

Driving the sharper rise in services activity in April was a stronger increase in incoming new business. The overall rate of new order growth across both sectors eased, however, reflecting a sharp slowdown in manufacturing.

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. This was offset by a slower rise in manufacturing jobs, and the overall rate of job creation across both sectors eased.

Private sector input price inflation eased slightly in April, but remained sharp in the context of historic data. Fuel, rents, metals and salaries were often reported by firms as being key sources of inflationary pressure during the month. Service providers registered sharper increases in input prices, while input cost inflation in manufacturing eased for the third month running to an eight-month low.

Output price inflation also weakened slightly in April, and was in line with the long-run series average. The rate of service sector output price inflation was unchanged from March's three-month low, and slightly weaker than the long-run survey average. Manufacturers, meanwhile, raised their charges at the slowest rate in nine months, but one that was nevertheless sharp in the context of historic survey data.

Comment

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

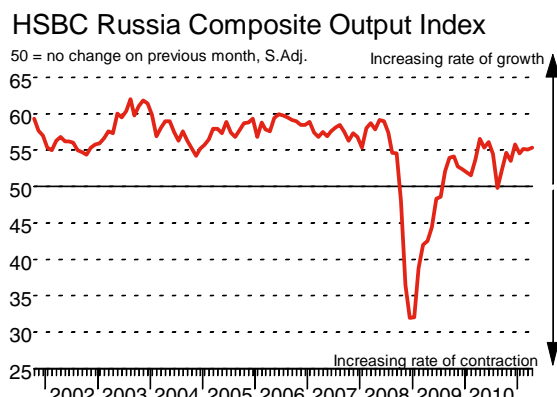
"April PMI data have finally revealed a marked improvement in business activity in services. Moreover, the gain has been strong enough for an acceleration in overall economic growth, despite a weaker expansion in manufacturing. Hotels & Restaurants and Financial Intermediation enjoyed the fastest increases in demand, signalling a return of pre-crisis private consumption trends. These should sustain growth momentum in the sector in the short term. We attribute these developments to the recent surge in oil prices and keep expecting an entrenchment of this trend going forward."

"As opposed to confusing official statistical data for March, April PMI data draw a coherent picture of economic developments in Russia. A fast rise in employment is complemented by salary rises that companies refer to as a driver of higher input costs, along with taxes, rents, and fuel. Apart from taxes that are policy-driven, the rest looks pretty much the same mix that Russia had before the crisis. In that case, the resumption of policy tightening would be justified."

Key points

- Private sector output rose at a solid rate in April, despite slower manufacturing growth.
- Input price inflation eased overall but remained sharp.
- Workforce growth improved in services but stalled in manufacturing.

Historical Overview



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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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