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HSBC Russia Services PMI®

Russian service sector growth accelerated further in May.

Key findings:

- Fastest rise in business activity for over a year.
- Employment increased at sharpest rate for three-and-a-half years.
- Business expectations at their strongest since December 2004.

The rate of improvement in Russian service sector business conditions continued to build momentum in May, according to the latest *PMI®* survey data from HSBC. The rates of growth for total activity, incoming new business and employment all accelerated since April, and companies were at their most confident regarding the long-term outlook for around six-and-a-half years.

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 rose for the second month running to 57.6 in May, from 55.8 in April. The Index has signalled growth for twenty-one of the past twenty-two months, and the latest rate of expansion was the fastest since April 2010. Growth in May was also stronger than the long-run survey average.

Driving the improvement in growth momentum across the Russian services sector in May was a faster increase in new business. Intakes of new work have risen for the past nine months, following a weather-related blip in August 2010. New business growth almost matched the long-run trend for the survey, while all six sub-sectors covered recorded expansion.

Russian service providers responded to improved market conditions by expanding their workforces in May. The current

sequence of job creation now stretches to seven months, and the latest rate of growth was the strongest since November 2007. In line with the trends for activity and new business, employment growth was broad-based across all sub-sectors covered by the survey.

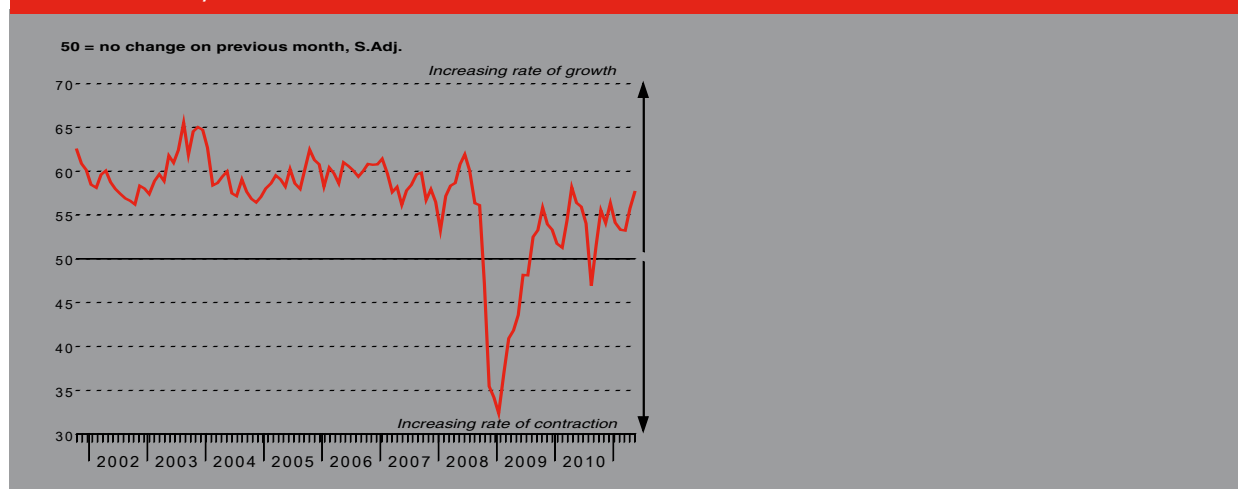
Russian service sector companies held a highly optimistic outlook for activity over the forthcoming year. Around 64% of survey respondents expect growth at their units over the next twelve months, and the overall degree of confidence was the highest since December 2004. Firms linked their positive views to expectations of wider economic growth, and improved market conditions related to the upcoming elections.

Input price inflation accelerated further in May, approaching the recent highs seen at the start of the year. The overall increase in input prices was slightly sharper than the historic survey average. Those firms reporting higher cost pressures during the month mentioned fuel, salaries, taxes and food prices as key contributing factors.

Russian service providers continued to raise their prices charged in May. The rate of inflation accelerated since April to the highest since February, but to a lesser extent than that recorded for input prices. Output price inflation was also slightly weaker than the long-run survey trend in the latest period.

The volume of outstanding business in the Russian services sector declined for the sixth month running in May. Moreover, the pace of decline was the fastest since last August.

Business Activity Index

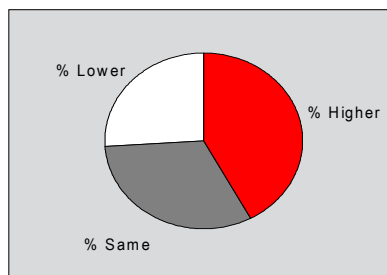
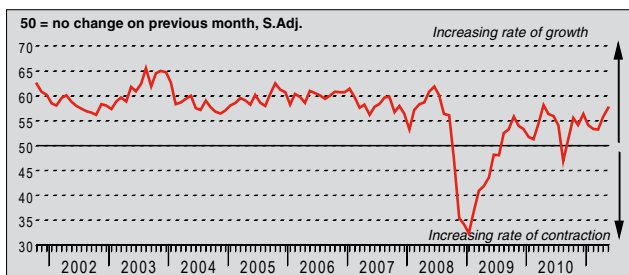


The survey uses a methodology identical to the HSBC Russia Manufacturing *PMI®*. The survey uses a panel of regularly participating companies to monitor trends in business conditions in the private sector services economy. The panel has been carefully selected to accurately replicate the true structure of the Russian services economy.

Questionnaires are dispatched at mid-month, requesting comparisons of the current situation with that of one month previously. *Purchasing Managers' Index™* and *PMI®* are trade marks of Markit Economics Limited, HSBC use the above marks under licence. Markit and the Markit logo are registered trade marks of Markit Group Limited.

Business Activity Index

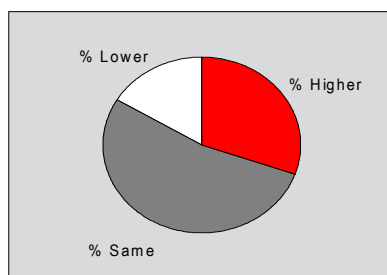
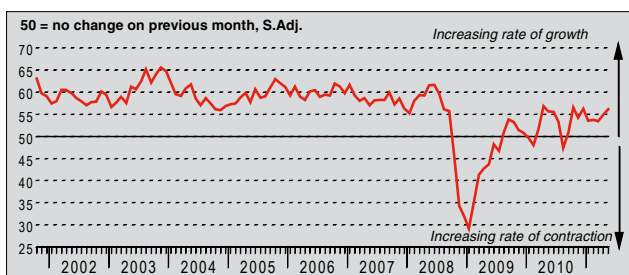
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



May data indicated a ninth successive monthly expansion of business activity in the Russian services sector. Moreover, the rate of growth accelerated for the second month running, to the fastest since April 2010. It was also greater than the long-run trend rate of growth for the first time in the current sequence. Firms generally linked rising activity to an improvement in demand. Growth was broad-based across all six sub-sectors for the first time since mid-2008, with the fastest expansion seen in Hotels & Restaurants.

New Business Index

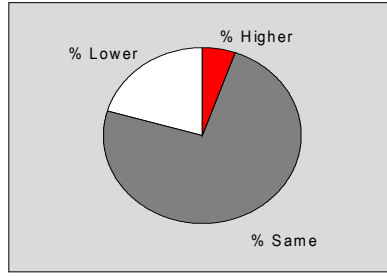
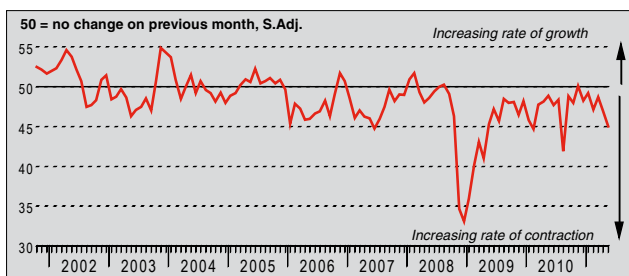
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



Russian service providers reported a further increase in new contracts in May. The rate of expansion was the fastest in five months, as signalled by a rise in the seasonally adjusted New Business Index. Moreover, growth was only slightly weaker than the long-run survey average. New business has risen every month since last September. In line with the trend seen for total activity, new business receipts increased across all six sub-sectors covered.

Outstanding Business Index

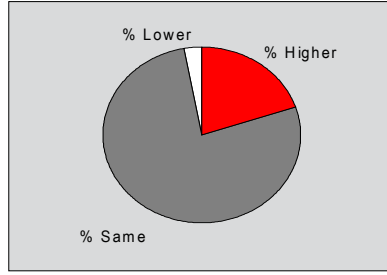
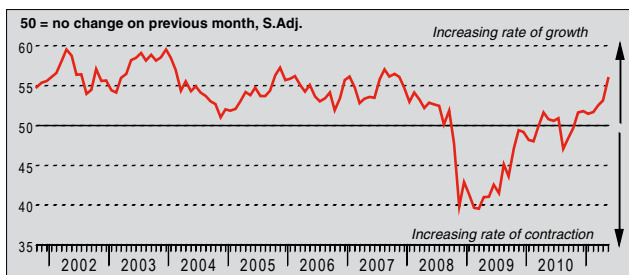
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



The seasonally adjusted Outstanding Business Index was well below the no-change mark of 50.0 in May, indicating a strong drop in backlogs at Russian service providers. The latest figure signalled the fastest rate of decline since August 2010. The level of incomplete business in the sector has fallen every month since September 2008, except for a brief pause last November. Outstanding business fell across all sectors except for Transport & Storage during the month.

Employment Index

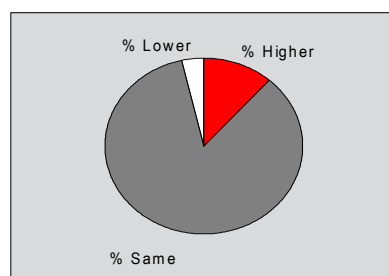
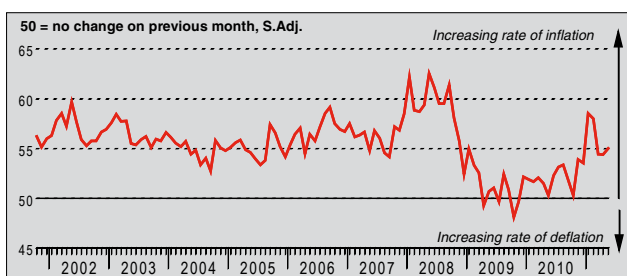
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



Service sector employment in Russia increased strongly in May. The seasonally adjusted Employment Index moved up for the fourth successive survey period, and the latest figure is indicative of the fastest rate of job creation in the sector since November 2007. A number of panellists linked recruitment growth to new contract wins during the month. Around 20% of companies reported expanding workforces, compared to less than 3% that cut headcounts. All six sub-sectors posted employment growth, led by Financial Intermediation.

Prices Charged Index

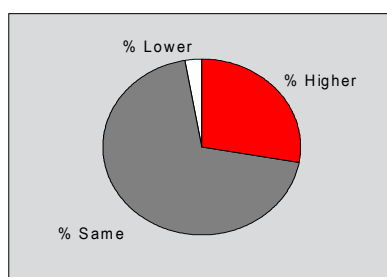
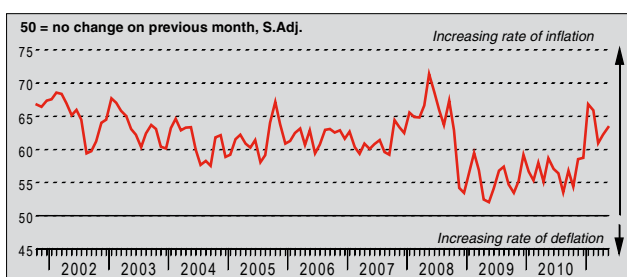
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Average prices charged by Russian service providers rose for the eighteenth successive month in May. The rate of inflation accelerated slightly since April, but remained down on January's twenty-eight month high. The seasonally adjusted Prices Charged Index was also below its long-run average during the month (55.5). By sub-sector, charges rose strongly in Hotels & Restaurants, Transport & Storage and 'Other Services', but fell in Financial Intermediation.

Input Prices Index

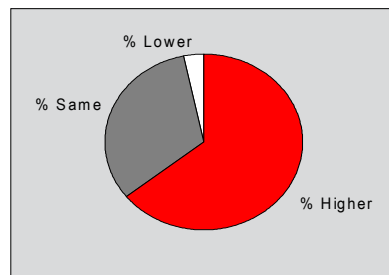
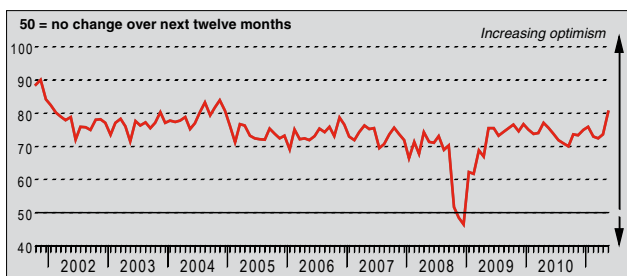
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



Input price inflation accelerated slightly in May, and remained greater than the long-run survey average. Firms mainly linked rising cost pressures to fuel, taxes, wages and food & drink prices. Around 28% of companies reported higher average input prices than one month previously, ten times the proportion that reported lower cost pressures. Input price inflation was strongest in Hotels & Restaurants, Transport & Storage and 'Other Services'.

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 were strongly optimistic regarding the twelve-month outlook for business activity in May. Around 64% of companies reported expectations of growth over the forthcoming year, the greatest proportion in around six-and-a-half years. Similarly, the Business Expectations Index rose sharply to its highest since December 2004. The latest figure is one of the highest in the series history. Firms' confidence was reportedly based on improving market conditions and a good environment for business surrounding the forthcoming elections.

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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