

HSBC Russia Services PMI® (with Composite PMI data)

Russian private sector growth remained stable in May as service sector acceleration offset manufacturing slowdown

Summary

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. However, a sharp slowdown in manufacturing growth resulted in a broadly unchanged rate of expansion across both sectors overall.

The headline figure for the services 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. It rose for the second month running to 57.6 in May, from 55.8 in April, signalling the fastest expansion since April 2010. Manufacturing production rose at the weakest pace in seventeen months (51.5), however, and the Composite Output Index was unchanged from April's 55.4 as a result.

Driving the improvement in growth momentum in the Russian services sector in May was a faster increase in new business. In contrast, manufacturing new orders were broadly unchanged from April. Reflecting this, new business growth across both sectors was the slowest for six months.

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. Employment also rose in manufacturing, and the overall rate of job creation across both sectors was the fastest since September 2007.

Russian service sector companies held a highly optimistic outlook for activity over the forthcoming year. The overall degree of confidence was the highest since December 2004.

Input price inflation in services accelerated further in May, approaching the recent highs seen at the start of the year. Those firms reporting higher cost pressures mentioned fuel, salaries, taxes and food prices as key contributing factors. However, a sharp slowdown in manufacturing input price inflation resulted in the slowest overall rate of inflation since October 2010.

All-sector output price inflation was also the weakest in seven months in May. This reflected a weaker rate of charge inflation at manufacturers.

Comment

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

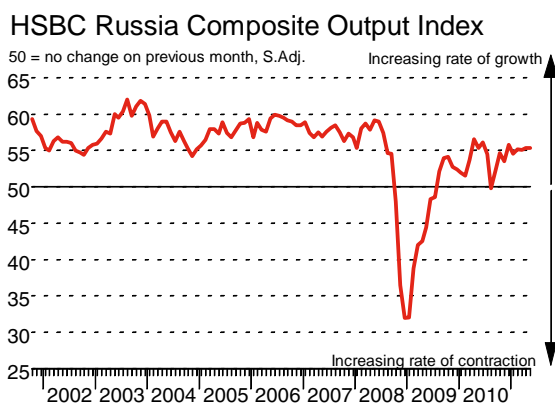
"As opposed to manufacturing, the service sector surprised positively in May demonstrating broad-based growth in all subsectors and accelerating its expansion rate to above the long-term average. Business expectations have improved markedly to levels last seen in 2004. High business optimism has prompted very active hiring by service companies and increased their readiness to pass through rising business costs on consumers.

In a nutshell, we observe a mirror image of the one seen last year: it is now services companies that drive overall output growth while manufacturers lag much behind. The integral result is not bad at all; the PMI Composite Output index speaks for stronger economic growth momentum in 2011 than in 2010, on average. Stabilization of global commodity prices and moderate yet positive growth in manufacturing should be a condition for further improvement of growth momentum in the service sector and the economy at large, we think. Such a growth model carries risks of higher inflation in the service sector, however, that may offset milder price growth of foodstuffs and prevent headline and core inflation from substantial deceleration this year."

Key points

- Private sector output rose at an unchanged rate in May.
- Manufacturing growth slowed while services accelerated.
- Input price inflation eased to seven-month low, centred on 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.

The *Purchasing Managers' Index (PMI)* survey methodology has developed an outstanding reputation for providing the most up-to-date possible indication of what is really happening in the private sector economy by tracking variables such as sales, employment, inventories and prices. The indices are widely used by businesses, governments and economic analysts in financial institutions to help better understand business conditions and guide corporate and investment strategy. In particular, central banks in many countries use the data to help make interest rate decisions. *PMI* surveys are the *first* indicators of economic conditions published each month and are therefore available well ahead of comparable data produced by government bodies.

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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