HSBC *Purchasing Managers' Index™* 2011

compiled by markit

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HSBC Russia Services PMI®

Russian service sector growth eased in June but remained marked.

Key findings:

- Slower increases in activity, new business and employment.
- Input price inflation softened to six-month low.
- Business expectations remained relatively strong.

The latest *PMI*® data compiled by Markit for HSBC showed that Russian service sector business conditions continued to improve in June. Business activity rose at a slower rate than May's thirteen-month high, but the expansion was broadly in line with the average for the first half of 2011. Services growth so far this year has been stronger than the trends for 2008, 2009 and 2010. Employment growth remained relatively robust, while input prices paid by service providers increased at the slowest rate in six months.

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 the previous month, and below 50.0 contraction.

The Business Activity Index fell for the first time since March, from May's thirteen-month high of 57.6 to 55.1. The latest figure was broadly in line with the trend shown for the first six months of 2011 (54.9), which was greater than the averages shown for 2008 (53.3), 2009 (46.8) and 2010 (53.9). The Index has signalled continuous services expansion for nearly two years, except for a weather-related decline last August. The rate of growth over Q2 is the strongest for any quarter since Q2 2010.

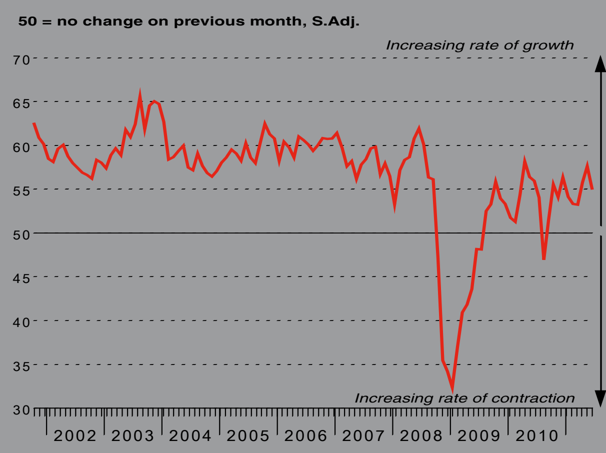
New business expansion eased since May, but was still the second-strongest of 2011 so far. Growth was also only slightly weaker than the long-run survey average. New contracts secured by Russian service providers have risen for fifteen of the past sixteen months. The latest increase in new business received did not place undue pressure on capacity, as the volume of outstanding business declined for the seventh month running – albeit at the slowest rate in three months.

Growth of service sector employment in Russia was maintained in June. The current sequence of job creation now stretches to eight months. The rate of growth eased from May's forty-two month high, but remained faster than the long-run survey average. For the second survey running, employment rose across all six monitored sub-sectors.

Inflationary pressure on service providers' input costs eased in June. The rate of input price inflation slowed sharply to a six-month low. Input cost inflation was weaker than the long-run average, but stronger than the trends shown over 2009 and 2010. Transport & storage firms registered the steepest increases in input prices, reflecting higher fuel costs. Across the service sector, prices charged rose at a strong rate that was unchanged from May, and only slightly weaker than the long-run survey average.

The business outlook held by Russian service providers remained firmly positive in June. Around 60% of companies reported expectations of activity growth over the next twelve months, versus less than 8% that held negative views. Firms expected improving demand, in part linked to reduced political uncertainty and higher commodity prices, to underpin economic growth.

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.

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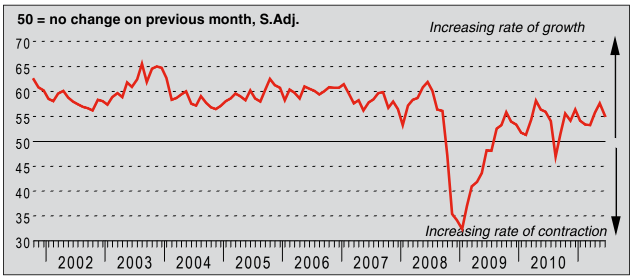
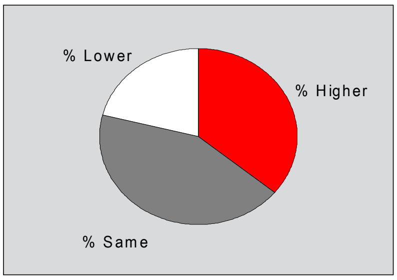
Business Activity Index

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.

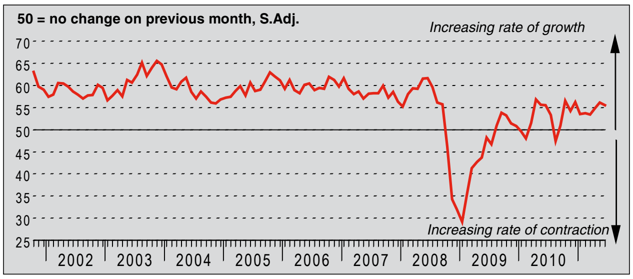


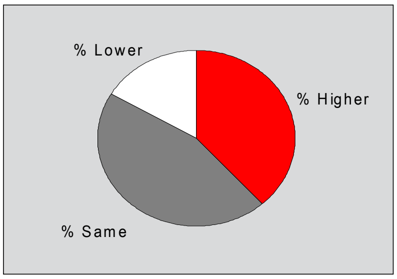


Russian service sector activity rose further in June. The current sequence of expansion now stretches to ten months, with 36% of survey respondents reporting growth. Firms mainly linked higher activity levels to improving demand. That said, the seasonally adjusted Business Activity Index fell from May's thirteen-month high, to a three-month low. It was also weaker than its long-run average of 56.7. Five out of six sectors registered activity growth, the exception being Renting & Business Activities. The strongest expansion was 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.

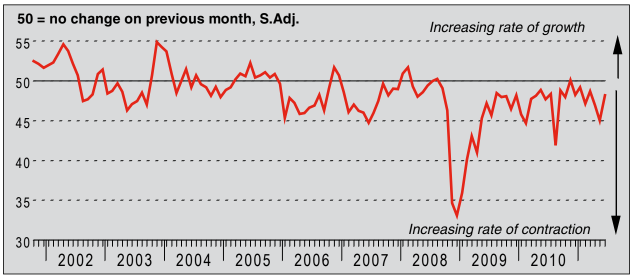


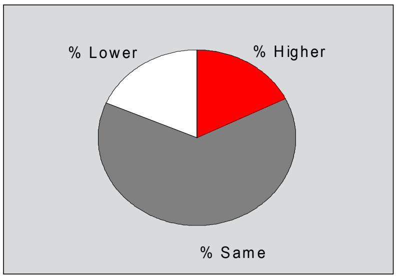


New business inflows continued to increase in June. The seasonally adjusted New Business Index remained above the no-change mark of 50.0 for the tenth month running. The rate of growth eased since May, but remained stronger than the trend over the current sequence. Firms reported higher market activity and improving demand, partly linked to the forthcoming elections. That said, the Index remained below its historic average of 56.6 during the month. New business growth was strongest in Transport & Storage.

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.

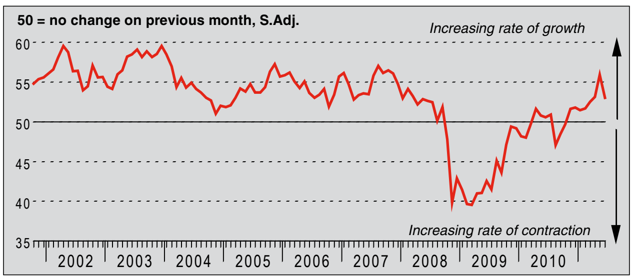


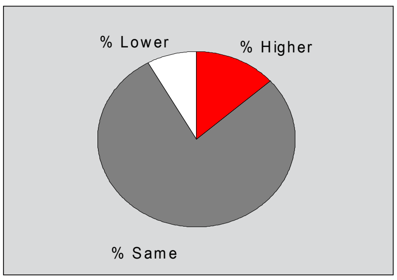


The volume of outstanding work held at Russian service providers declined for the seventh month running in June. The rate of decline slowed from May's nine-month record, however, to the weakest since March. Outstanding business declined in four sectors, with the steepest falls seen in Post & Telecommunications and Other Services. Backlogs rose sharply in Transport & Storage.

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).

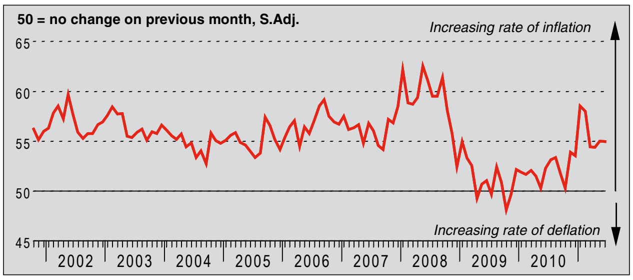


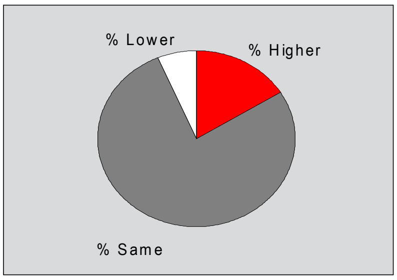


Russian services employment continued to rise in June. The current sequence of job creation now stretches to eight months. Firms linked recruitment to business development and new contracts. The seasonally adjusted Employment Index fell for the first time since January, and indicated the weakest rise in staffing since March. But the Index remained above its long-run average of 52.9, suggesting that employment growth was relatively strong. All six sectors registered higher employment, with the strongest rate of growth seen in Post & Telecommunications.

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.

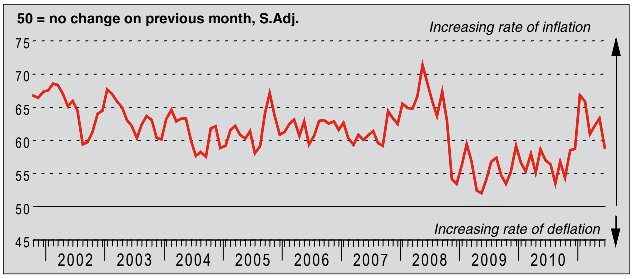


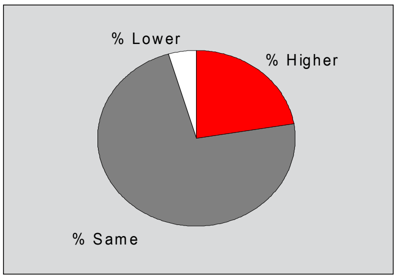


Average prices charged by Russian service providers rose in June. Charges have increased every month since December 2009. The seasonally adjusted Prices Charged Index remained down on January's twenty-eight month peak, but the latest figure still signalled a strong rate of inflation that was unchanged from May. Firms mainly linked higher charges to rising costs for utilities, fuel and labour. Transport & Storage, Hotels & Restaurants and 'Other Services' registered the fastest increases in charges during the month.

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.

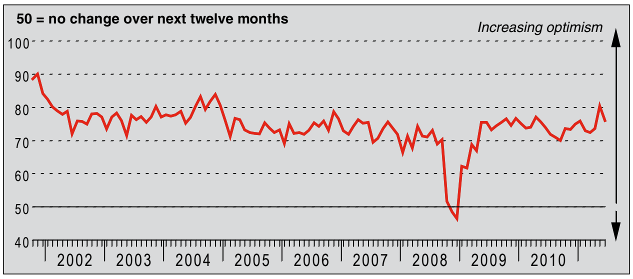


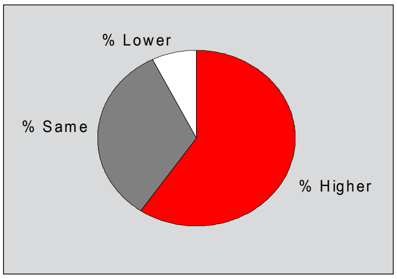


The rate at which service sector companies' average input prices increased slowed in June. Around 22% of firms reported higher average input costs compared with May, but the overall rate of inflation across the sector was the weakest of 2011 so far. That said, input price inflation remained higher than the trend shown over 2009-2010. By sub-sector, input prices rose sharpest in Transport & Storage, 'Other Services' and Post & Telecommunications.

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 retained an optimistic outlook on the forthcoming twelve months. The Business Expectations Index remained well above neutrality, as almost 60% of firms expect growth of business activity over the next year. The degree of sentiment was slightly weaker than in May, but still the second-strongest since April 2010. Business development, new clients, lower political uncertainty and higher raw material prices were all reported as factors linked to firms' positive outlooks. Hotels & Restaurants reported the strongest degree of sentiment.

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.

Warning