HSBC *Purchasing Managers' Index*™ Press Release

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compiled by markit

HSBC Russia Services PMI® (with Composite PMI data)

Russian service sector growth slowed in June, but remained sharper than manufacturing expansion

Summary

The latest *PMI®* data compiled by Markit for HSBC showed that Russian service sector 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.

The Services Business Activity Index fell for the first time since March, from May's thirteen-month high of 57.6 to 55.1. This led to a fall in the Composite Output Index, covering manufacturing and services, to a seven-month low of 53.8. Manufacturing output growth remained weak in June (51.6).

New business expansion in services 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. In contrast, manufacturing new orders rose only marginally, having fallen in May. Across both sectors, new business growth was the slowest since last November.

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. Manufacturers shed staff on average for the first time since last September. The overall rate of job creation was at a five-month low.

Inflationary pressure on service providers' input costs eased in June. The rate of input price inflation slowed sharply to a six-month low. Transport & storage firms registered the steepest increases in input prices, reflecting higher fuel costs. Input price inflation in manufacturing strengthened slightly since May's twenty-two month low.

Prices charged rose at broadly similar rates in both manufacturing and services in June. The overall rate of inflation was the weakest since October 2010.

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.

Comment

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

"Slower growth of business activity in the services sector signals an inability to sustain a high pre-crisis expansion rate. This is hardly surprising given weak growth momentum in manufacturing and uncertainty about demand growth in future, despite business expectations remaining stronger than their historic averages.

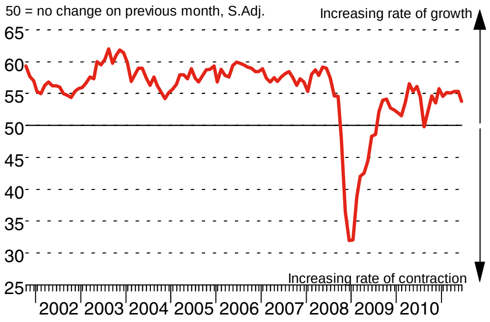
Has the service sector the potential for stronger growth than recorded at present? There are reasons to believe so. Robust growth of consumer loans and continuing strong business expansion in hotels & restaurants suggests that consumers are getting ready for spending more, and not just on first priority goods and services. Besides, our model of unemployment shows that labour resources are already over-utilized compared to a full-employment case. It points to a probable forthcoming rise in wage pressures in the economy that would make employees more confident in their spending.

Of course, the world has changed and a return to pre-crisis growth rates is unlikely, both in Russia and globally. Yet, we expect the service sector in Russia to improve its growth momentum in the coming months and to push up overall GDP growth."

Key points

- Services activity growth remained marked, despite weakening.
- Output growth across both manufacturing and services at seven-month low.
- Manufacturing remained weak relative to services in terms of output, new business and jobs.

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.

HSBC Group:

HSBC is one of the largest banking and financial services organisations in the world, with a market capitalisation of US$180bn at 31 December 2010. We are headquartered in London. As 'The world's local bank', we combine the largest global emerging markets banking business and a uniquely cosmopolitan customer base with an extensive international network and substantial financial strength. HSBC operates through long-established businesses and has an international network of some 7,500 offices in 87 countries and territories in six geographical regions; Europe, Hong Kong, Rest of Asia-Pacific, the Middle East, North America and Latin America.

HSBC Group operates in Russia through OOO HSBC Bank (RR). HSBC Russia provides a wide range of corporate banking, investment banking and financial markets products and services to corporate and institutional customers.

About Markit:

Markit is a leading, global financial information services company with over 2,200 employees. The company provides independent data, valuations and trade processing across all asset classes in order to enhance transparency, reduce risk and improve operational efficiency. Its client base includes the most significant institutional participants in the financial market place. For more information, see www.markit.com.

About PMIs:

Purchasing Managers' Index™ (*PMI*®) surveys are now available for 32 countries and also for key regions including the Eurozone. They are the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to www.markit.com/economics.