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HSBC Russia Services PMI®

Russian service sector growth accelerates in July

Key findings:

- Faster increase in activity
- Input price inflation rises slightly
- Business expectations strengthen

The latest *PMI*® data compiled by Markit for HSBC showed that Russian service sector growth quickened slightly in July. Activity rose at a faster rate, driven by a further strong increase in incoming new business and a sharper decline in outstanding work. This supported a further expansion of services employment. Firms' expectations for business activity in the year ahead also improved, with more than half of all survey respondents reporting expectations of growth. That said, the rate of expansion in total services activity remained weak in comparison with the long-run survey trend.

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 rose in July to 56.9, from 55.1 the previous month. This signalled expansion of services output in Russia for the eleventh month running, and at a faster rate than in the previous month. The rate of growth was the second-fastest in this sequence, but remained weaker than the pre-crisis trend. By sub-sector, activity rose at the sharpest rates in Transport & Storage and Post & Telecommunication.

Gains in new business supported the latest increase in services activity. The rate of expansion in new contracts was solid, and broadly in line with that seen in June, but lower than the long-run

survey average.

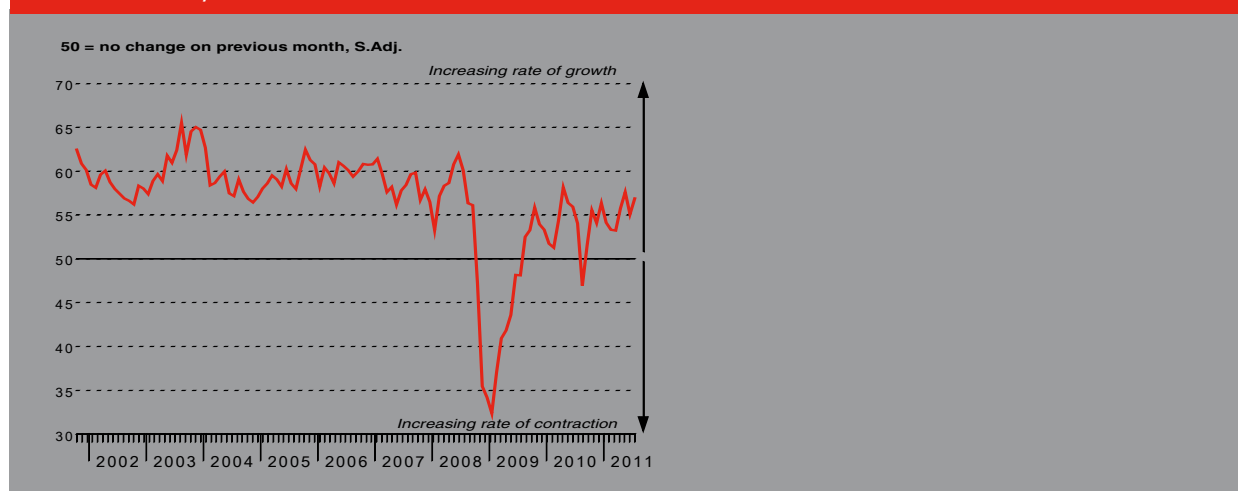
Russian service providers continued to reduce their levels of incomplete business in July. Moreover, the rate of decline in backlogs accelerated since the previous month. Firms attributed declining outstanding business to both improved productivity and spare business capacity. Backlogs have declined every month since last December.

Services employment in Russia increased for the ninth month in a row in July. The pace of workforce growth eased further from May's high, and was slightly weaker than the survey's long-run average. That said, employment growth was recorded in all sub-sectors monitored except for 'Other Services'.

Input price inflation in the Russian service sector increased slightly in July. Sources of rising costs included salaries, marketing, renting and telecommunications. Transport & Storage registered the fastest overall rate of inflation. But across the service sector as a whole, cost pressures broadly in line with the historic survey average. Meanwhile, prices charged by service providers rose at the fastest rate since February.

Business expectations in the Russian service sector improved in July. The degree of positive sentiment was greater than the long-run survey average, as 58% of companies anticipate growth of activity over the next 12 months. Sentiment was strongest in Financial Intermediation. Positive outlooks were linked to economic growth, upcoming elections, new product development and company expansions.

Business Activity Index

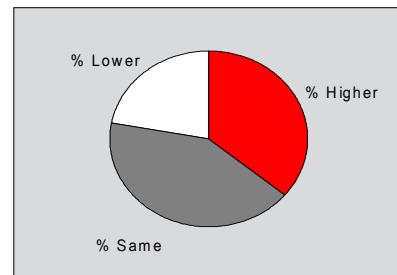
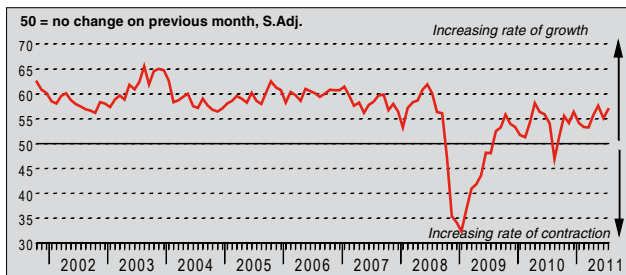


The survey uses a methodology identical to the HSBC Russia Manufacturing *PMI*®. The survey uses a panel of regularly participating companies to monitor trends in business conditions in the private sector services economy. The panel has been carefully selected to accurately replicate the true structure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

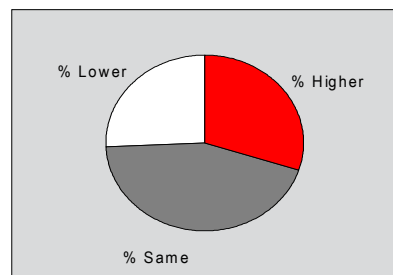
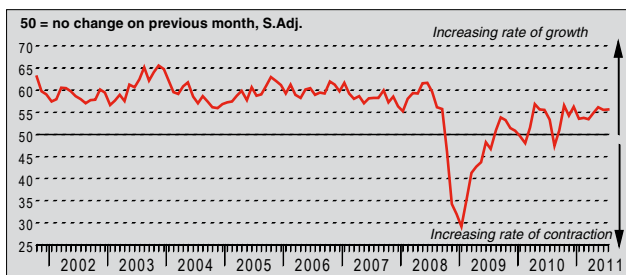
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



Business activity at Russian service providers increased for the eleventh successive month in July. Moreover, the seasonally adjusted Business Activity Index rose on the month, and indicated the second-fastest rate of expansion in the current sequence. Anecdotal evidence from survey respondents generally linked higher activity to improving market conditions. That said, the Index remained well below its pre-crisis average of 59.3. By sub-sector, growth was sharpest in Transport & Storage and Post & Telecommunication respectively.

New Business Index

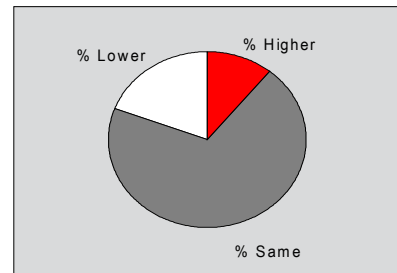
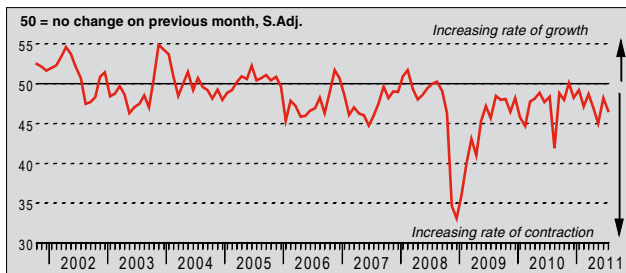
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



New business growth was maintained at a solid pace in July. The seasonally adjusted New Business Index was little-changed from June, and above the average for the current 11-month sequence of readings above 50.0. That said, the rate of growth in new contracts at service providers remained weaker than the survey's long-run average. Detailed sector data indicated the fastest rates of new business expansion were in Transport & Storage and Post & Telecommunication respectively.

Outstanding Business Index

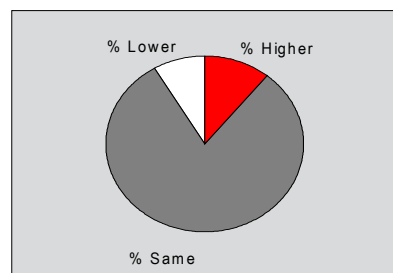
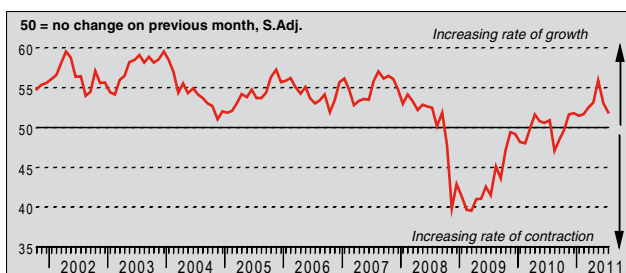
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



July survey data indicated that Russian service providers continued to work through outstanding contracts. The volume of incomplete business declined for the eighth successive month, and at a faster rate than in June. Declining backlogs were linked to both improved productivity and spare business capacity. The seasonally adjusted Outstanding Business Index remained below its long-run trend level of 48.4 during the latest period. Outstanding business declined across five sub-sectors, the exception being Transport & Storage.

Employment Index

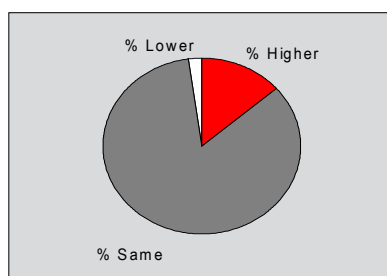
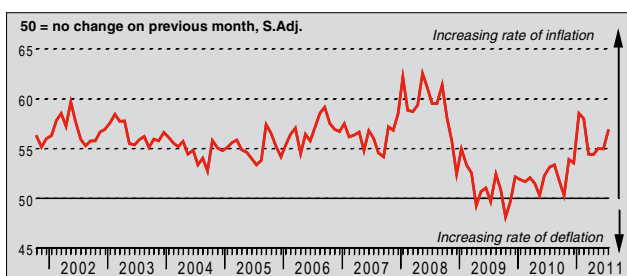
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



Service sector employment in Russia expanded for the ninth successive month in July. The rate of job creation eased further from May's three-and-a-half-year high, however. It was slightly weaker than both the trend for the first half of 2011 and the historic survey average. Around 11% of firms reported expanding workforces, linked to higher business requirements. Employment growth was indicated in five sub-sectors, the exception being 'Other Services'.

Prices Charged Index

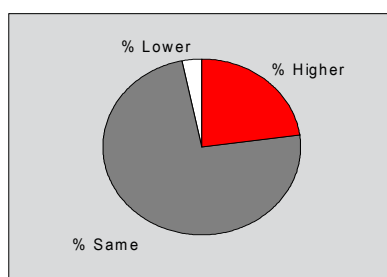
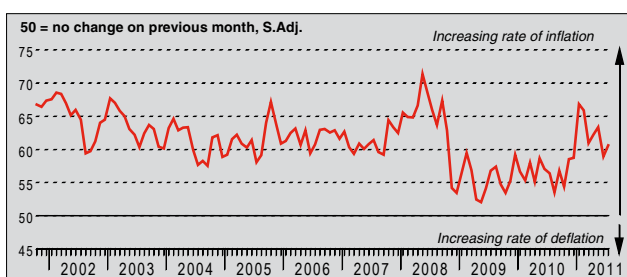
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Upward pressure on service providers' charges was maintained in July. The rate of inflation accelerated to the fastest since February. Moreover, the seasonally adjusted Prices Charged Index was greater than the long-run survey average (55.5). Around 14% of firms raised prices charged compared with one month previously. Higher charges were linked by survey respondents to increased input prices and, in some cases, the introduction of better quality products and services. Charges rose in all sectors except for Post & Telecommunication.

Input Prices Index

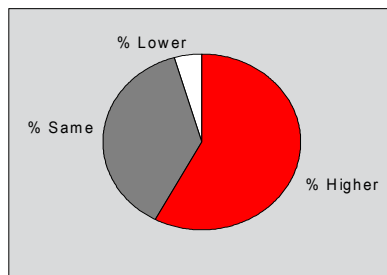
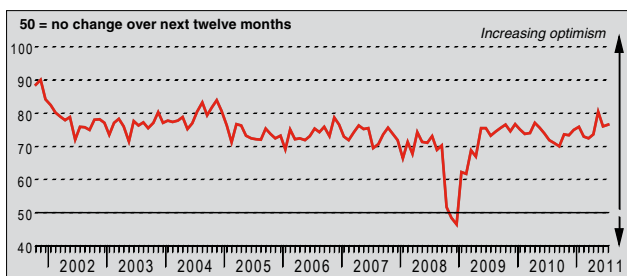
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



Prices paid by Russian service sector companies for their inputs rose sharply in July. Salaries were a commonly reported source of input price inflation, as were renting, telecommunication and marketing costs. The seasonally adjusted Input Prices Index rose from June's six-month low, and was slightly stronger than the trend over the past 12 months. It was also broadly in line with its long-run average of 61.4. Input price inflation accelerated in all six sub-sectors, with the steepest rise in Transport & Storage.

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?



Business sentiment among Russian service providers strengthened in July. The Business Expectations Index rose for the third time in four months, and was greater than the long-run average of 74.4. Positive outlooks, held at around 58% of survey respondents, were linked to new products, company expansions, forthcoming elections and wider economic growth at home and abroad. That said, the Index failed to surpass May's 77-month high. Sentiment was strongest in Financial Intermediation.

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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