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HSBC Russia Services PMI®

Russian service sector growth slowed in August

Key findings:

- Weakest rise in business activity at service providers since September 2010
- Employment growth at ten-month low
- Business expectations suffer steepest moderation since October 2008

The latest *PMI*® data compiled by Markit for HSBC showed that Russian service sector growth lost momentum in August, and experienced a marked weakening in forward-looking business sentiment. Activity rose at the slowest rate in nearly a year, while business expectations regarding the year ahead were at their lowest in two-and-a-half years. Inflationary pressures eased further, remaining weak in the context of historic survey data.

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 in August, erasing the previous month's gain. The latest figure of 53.2 signalled the weakest rate of growth in services output since September 2010. The average for Q3 so far (55.1) points to softer expansion than in Q2 (56.2). The Index was also well below its long-run average of 56.7 during the month.

New business growth at Russian service providers was maintained for the twelfth month in succession in August. The pace of expansion was, however, the weakest since March, and slow compared to the long-run survey trend (since October 2001). With new business rising more slowly in August, the volume of outstanding work declined at the sharpest rate since May.

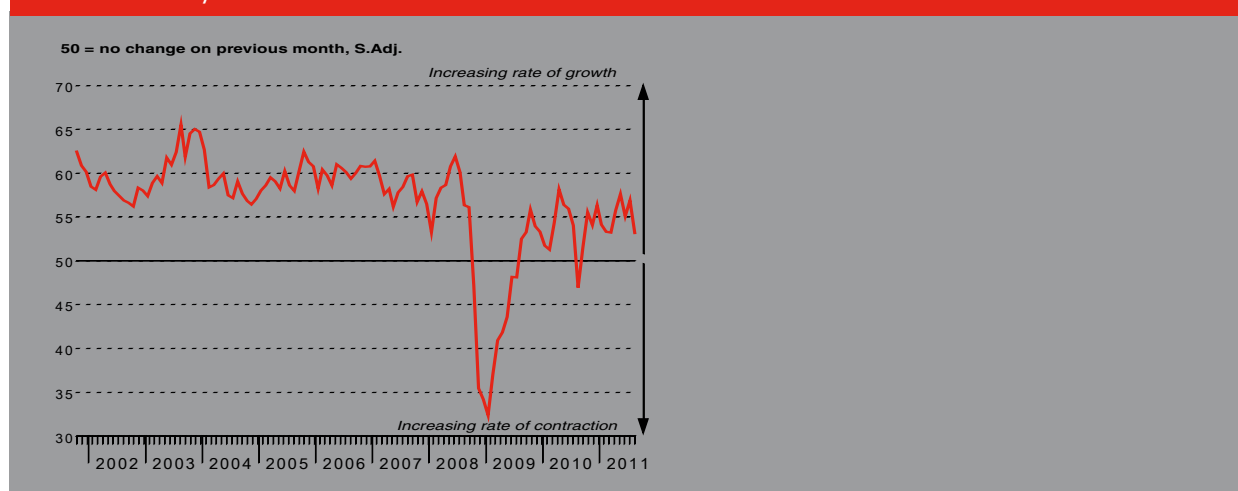
The twelve-month outlook for business activity worsened to the greatest degree since October 2008 in August. While, on average, service providers expect activity volumes to rise from current levels in one year's time, the overall degree of positive sentiment weakened sharply since July. Data signalled the least optimistic outlook since early-2009 in the midst of the global financial crisis. All sub-sectors posted weaker degrees of positive sentiment during the latest period.

Slower gains in current and expected new business fed through to service providers' hiring decisions in August. Employment in the sector rose for the tenth month in succession, but the rate of job creation was the weakest in this sequence. Moreover, employment fell in Hotels & Restaurants and 'Other Services'.

Survey data signalled a further moderation of service providers' cost pressures in August. While firms continued to report higher prices for fuel, rents and salaries in particular, the overall rate of input cost inflation slowed for the second time in the past three months to the second-weakest in 2011 so far. Input price inflation also remained below the long-run average for the series.

Russian service sector companies continued to pass on higher input prices to customers in August. Charge inflation has been registered every month since December 2009. That said, the rate of inflation slowed in August to the softest since October 2010. It was also weak in the context of historic survey data.

Business Activity Index

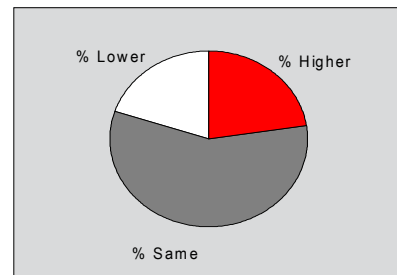
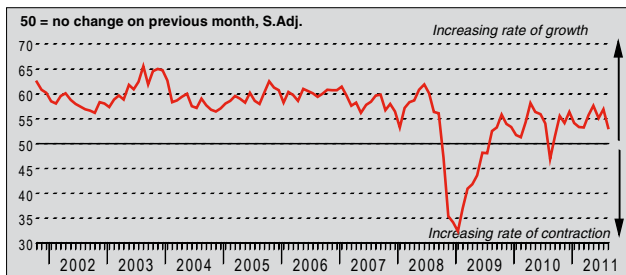


The survey uses a methodology identical to the HSBC Russia Manufacturing *PMI*®. The survey uses a panel of regularly participating companies to monitor trends in business conditions in the private sector services economy. The panel has been carefully selected to accurately replicate the true structure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

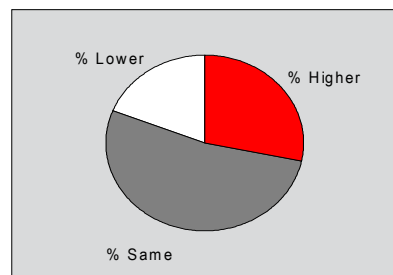
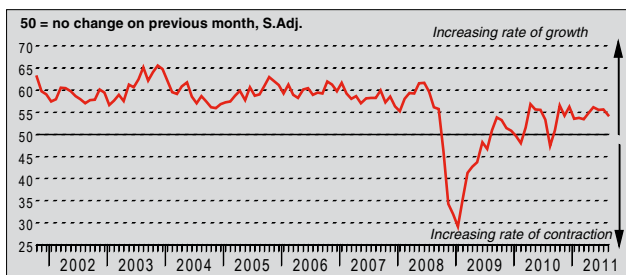
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



Service sector business activity in Russia rose for the twelfth successive month in August. The rate of growth slowed, however, to the weakest since September 2010 (when activity growth resumed following extreme weather conditions). The seasonally adjusted Business Activity Index was well below its long-run average of 56.7 during the latest period. By sub-sector, activity rose strongly in Transport & Storage, Post & Telecommunication and Financial Intermediation, but fell in Hotels & Restaurants, Renting & Business Activities and 'Other Services'.

New Business Index

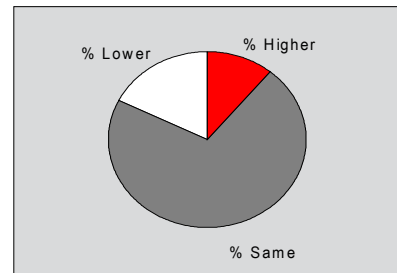
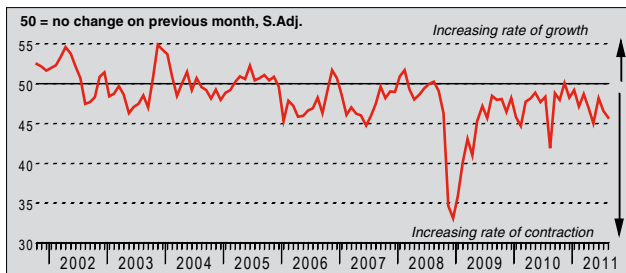
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



Incoming new business rose in August, extending the current sequence of expansion to one year. Growth was linked to new products, global demand and successful marketing campaigns. The seasonally adjusted New Business Index fell to a four-month low, however, and was weak in the context of historic data. Expansion was maintained in five sub-sectors, the exception being 'Other Services'. The strongest gain in new business was recorded in Transport & Storage, followed by Post & Telecommunication.

Outstanding Business Index

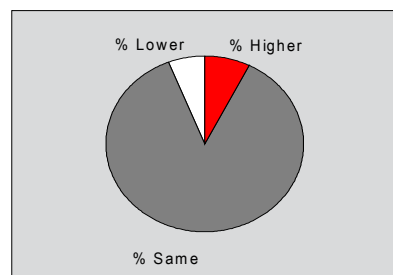
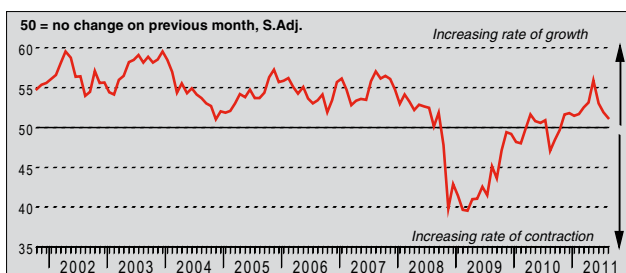
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



Slower gains in new contracts enabled Russian service providers to cut their backlogs further in August. The seasonally adjusted Outstanding Business Index remained below the no-change mark of 50.0 for the ninth consecutive month, and signalled the fastest rate of contraction since May. It also remained below its long-run trend level of 48.4. Outstanding business fell in five sub-sectors, the exception being Financial Intermediation.

Employment Index

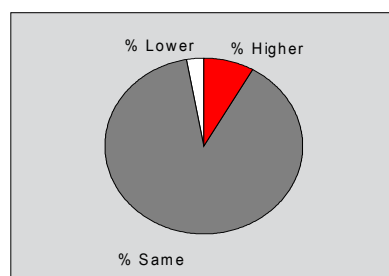
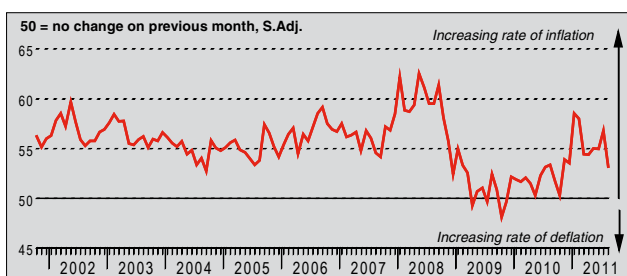
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



Employment in the Russian service sector rose for the tenth month in a row in August. The rate of job creation weakened further from May's three-and-a-half year high, however, to the slowest in the current sequence of growth. Firms that expanded workforces linked recruitment to new projects, while those that cut staffing blamed cost pressures. Employment growth was maintained in four out of six sub-sectors, with the sharpest increase seen in Post & Telecommunication. Declines in staffing levels were seen in Hotels & Restaurants and 'Other Services'.

Prices Charged Index

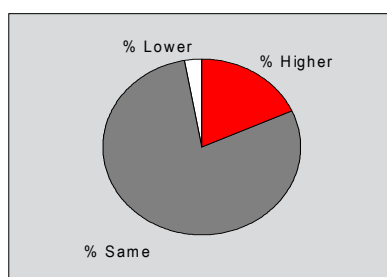
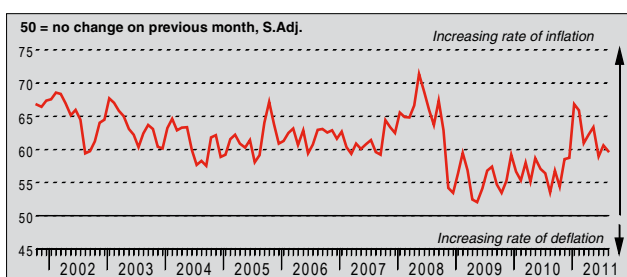
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Russian service providers continued to raise their prices charged to customers in August. The current sequence of charge inflation now stretches to 21 months. Firms generally linked higher tariffs compared with the previous month to the transfer of cost pressures to clients. That said, the seasonally adjusted Prices Charged Index fell sharply, posting its joint-largest one-month drop in the series history. The latest figure signalled the weakest rate of inflation since October 2010.

Input Prices Index

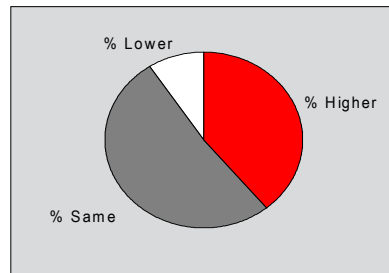
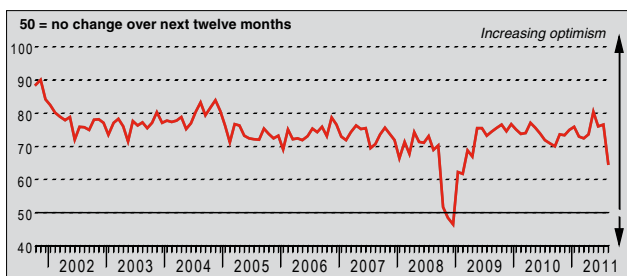
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



Input price inflation eased in August, approaching June's low. The seasonally adjusted Input Prices remained below its historic average (61.4) for the third month running. Of the 18% of survey respondents reporting higher average input costs than in July, the main sources were fuel, rents, salaries and the effect of the weaker rouble exchange rate. Cost pressures were strongest in Transport & Storage, and weakest in Hotels & Restaurants.

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?



August data marked a severe weakening in business sentiment at Russian service providers. While 39% of firms anticipate growth of activity over the next 12 months, approximately 9% are expecting declines. Subsequently, the Business Expectations Index slumped to its lowest since February 2009. Moreover, the one-month fall in the Index was the largest since October 2008 (in the month following the collapse of Lehman Brothers). All six sub-sectors posted steep declines in their Business Expectations Indices during the month.

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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