

## HSBC Russia Services PMI® (with Composite PMI data)

### Russian service sector growth slowed in August

#### Summary

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. This followed on from weak manufacturing data, and resulted in the slowest overall gain in private sector output since September 2010.

The Services 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. Manufacturing production rose only modestly (51.5) and, subsequently, the Composite Output Index fell to 52.6, an 11-month low.

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. New orders at manufacturers declined marginally for the second month running, and across both sectors new business growth was the weakest for nearly a year.

The twelve-month outlook for services business activity in 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.

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. Manufacturing employment declined for the second time in three months and, at the composite level, job creation slowed to a marginal pace.

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. Meanwhile at manufacturers, input prices rose at the weakest pace for over two years.

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. Output price inflation in manufacturing hit a 21-month low.

#### Comment

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

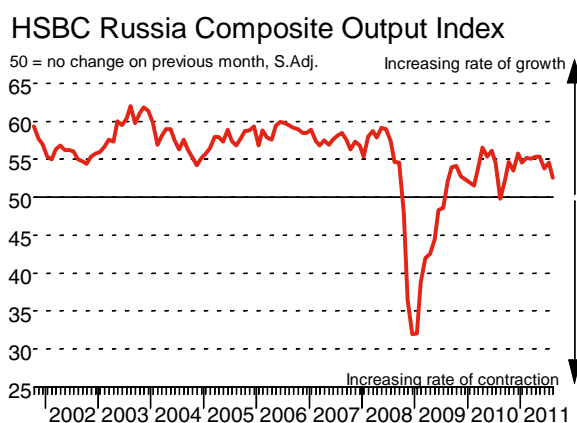
*"Russian service sector growth momentum has substantially eased in August, reporting a weakening in all survey indicators. A shift in the business expectations index from a multi-month high to a multi-month low in just three months is astonishing and worrisome. Presumably, a visible slowdown of business expansion growth combined with a strong turbulence observed on global and Russian financial markets has frightened service providers."*

*"Seasonally adjusted growth of GDP ex-agriculture has slowed down to annualized 2.5-3.0% in August, on our estimates derived from the HSBC Russia Composite PMI release. Yet, agriculture must be adding another 2pp or so to GDP growth, benefiting from the low base effect. In a nutshell, Russian growth appears to be pretty robust at the moment, but the outlook has worsened sharply. A piece of positive news is that price growth in both services and manufacturing has lost a lot of momentum on weaker demand growth. This should help to stabilize inflation once the positive impact from food deflation comes to an end."*

#### Key points

- Weakest rise in business activity at service providers since September 2010
- Overall output growth across manufacturing and services at 11-month low
- Business expectations in services suffer steepest moderation since October 2008

#### 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](mailto:economics@markit.com).

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