

Embargoed until: 09:00 (MOSCOW), 5 October 2011

## HSBC Russia Services PMI®

### Expansion of services sector remains sluggish in September

#### Key findings:

- Activity growth little-changed from August's 11-month low
- Weakest rise in new business for a year
- Business expectations improve slightly but remain relatively subdued

The latest *PMI*® data compiled by Markit for HSBC showed that Russia's service sector failed to regain growth momentum in September, following August's slowdown. New business intakes rose at the slowest pace for a year, leading to a further lacklustre increase in total activity. Firms' longer-term expectations for workloads also remained downbeat, despite improving slightly since August. Meanwhile, inflationary pressures continued to ease, with both input and output prices rising at slightly slower rates during the month and 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 was little-changed in September at 53.3, failing to recover from August's slide from 56.9 to 53.2. The latest figure was well below the survey's long-run average of 56.7, and indicated only a moderate rise in activity in the services economy. The average figure for Q3, of 54.5, was weaker than Q2's 56.2, suggesting that wider economic growth may ease in the third quarter.

Intakes of new work at Russian service providers rose in September, extending the current growth sequence to 13 months. But the rate of expansion was the weakest for a year, and well below the historic survey average.

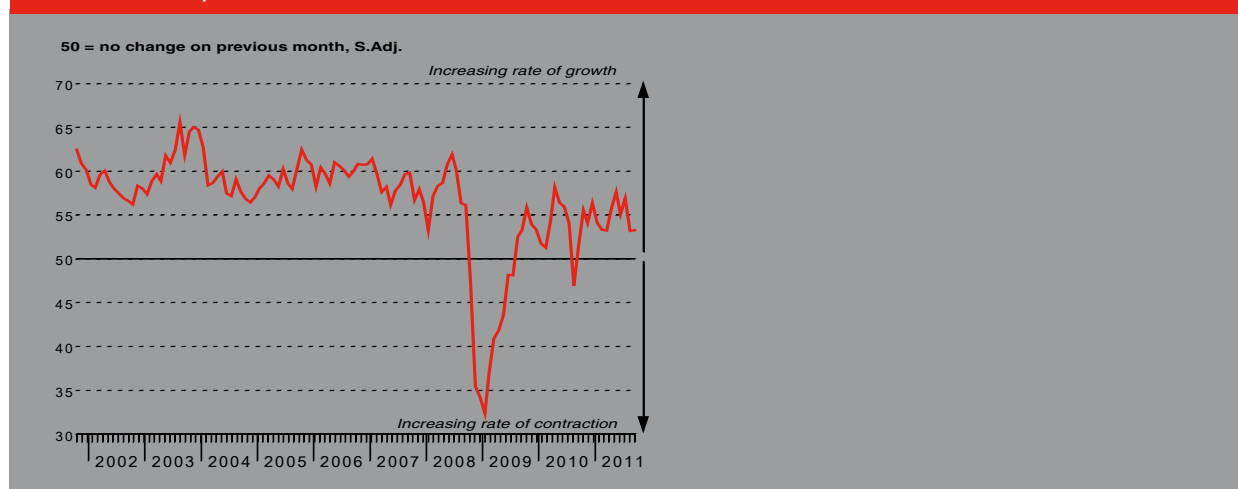
The current malaise in business conditions was further highlighted by a sharp fall in outstanding contracts in September. Backlogs have not risen since November 2010, suggesting a lack of demand pressure on service providers' capacity. The rate of decline in incomplete work in September was the strongest since August 2010.

A forward-looking indicator from the survey, business expectations, continued to point to relatively weak growth ahead. The overall degree of sentiment regarding expected levels of business activity in twelve months' time was slightly better than August's two-and-a-half-year low, but remained subdued. For the second month running, a majority of firms expect activity to either fall or be unchanged over the outlook period.

Service providers in Russia expanded their workforces in September, extending the current period of employment growth to nearly a year. But, reflecting relatively weak increases in activity and new business, the rate of job creation remained slow.

Cost pressures continued to ease in September, remaining weaker than the long-run trend over ten years of data collection to date. Input price inflation was the weakest since October 2010, though firms continued to report rising prices for fuel and utilities in particular. Output price inflation also eased to an 11-month low in September, as firms reported that strong competitive pressures had restricted their ability to raise prices.

#### Business Activity Index

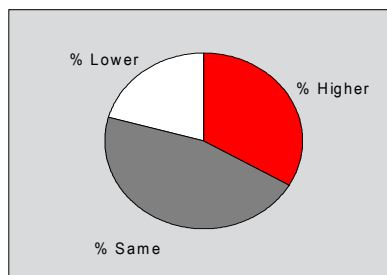
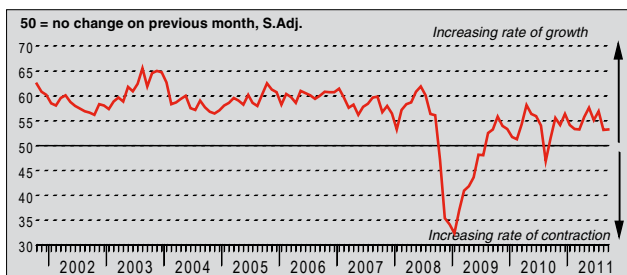


The survey uses a methodology identical to the HSBC Russia Manufacturing *PMI*®. The survey uses a panel of regularly participating companies to monitor trends in business conditions in the private sector services economy. The panel has been carefully selected to accurately replicate the true structure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

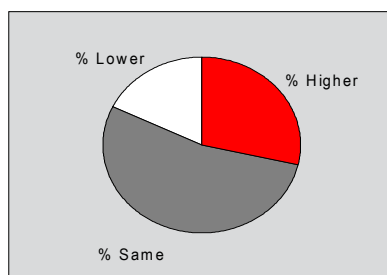
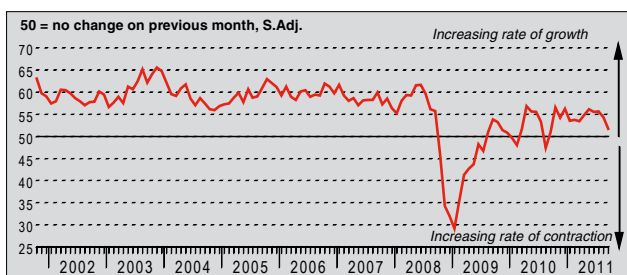
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



Private sector services activity in Russia rose for the thirteenth successive month in September. However, adjusting for seasonal factors, the Business Activity Index signalled a further sluggish rate of expansion, being little-changed from August's 11-month low. It also remained well below its long-run average of 56.7. On a quarterly basis, the rate of growth slowed in Q3 compared with Q2. Moderate rates of growth were signalled in four sub-sectors, the exceptions being 'Other Services' – where activity fell – and Post & Telecommunication, which posted strong growth.

## New Business Index

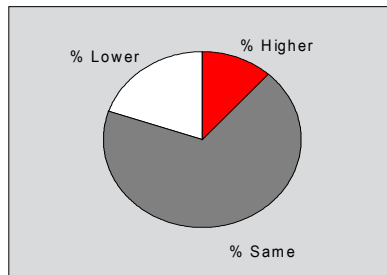
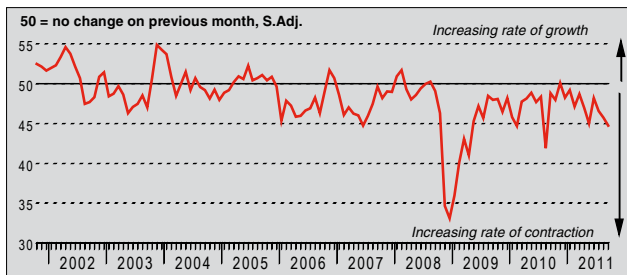
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



The seasonally adjusted New Business Index remained above neutrality in September, as it has every month since September 2010, signalling a rise in new business volumes at Russian service providers. That said, it fell for the second month running, and indicated only a weak rate of expansion. Sub-sector data signalled five areas recording growth in new contracts since August, albeit at relatively modest rates. The strongest expansion was in Hotels & Restaurants, while 'Other Services' registered a sharp drop.

## Outstanding Business Index

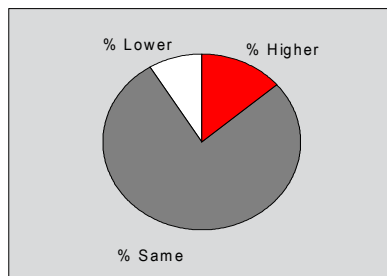
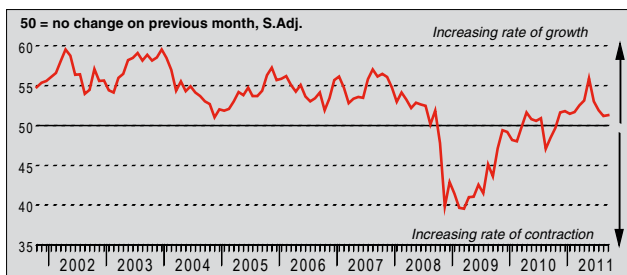
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



Outstanding work in the Russian services sector continued to fall in September, highlighting a lack of pressure on business capacity. The current sequence of declines now stretches to ten months. Moreover, the seasonally adjusted Outstanding Business Index fell for the third month running, and signalled the fastest rate of contraction since August 2010. All six sub-sectors reported declining backlogs during the month, with the steepest rate of contraction seen in Hotels & Restaurants. The weakest fall was in Financial Intermediation.

## Employment Index

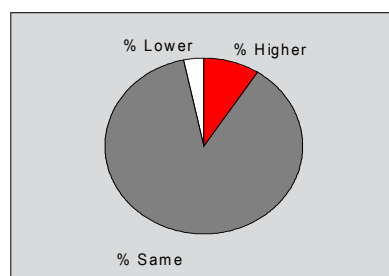
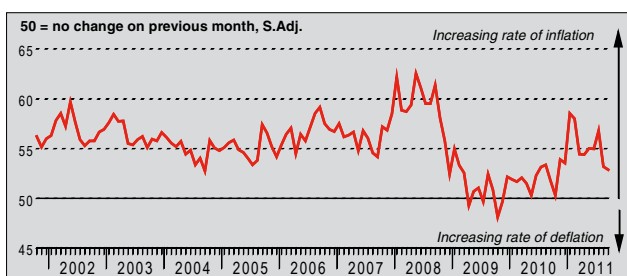
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



The seasonally adjusted Employment Index remained above the no-change mark of 50.0 in September, signalling further job creation in the Russian services economy. A number of firms linked recruitment to new projects. The current period of growth now stretches to 11 months. The rates of expansion in the past two months, however, have been the weakest in this sequence. Employment rose in four sub-sectors, led by Post & Telecommunications. Companies in Hotels & Restaurants and 'Other Services' cut headcounts on average in the latest period.

## Prices Charged Index

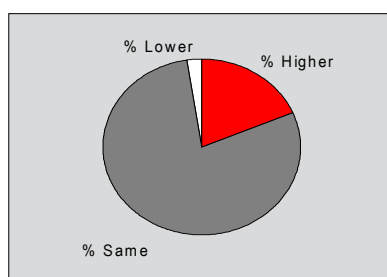
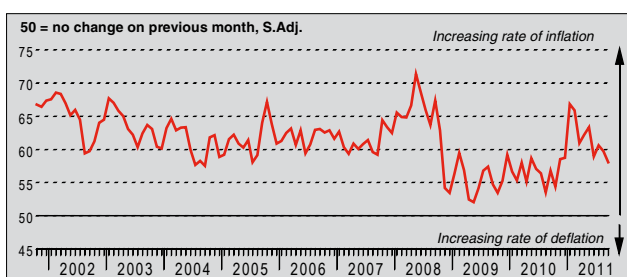
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Average prices charged by Russian service providers rose again in September. The rate of inflation slowed further from July's five-month high, however, as signalled by another fall in the seasonally adjusted Prices Charged Index. The latest figure was well below the historic series average and indicative of the weakest rate of charge inflation since October 2010. Anecdotal evidence linked rising tariffs to higher input costs, but also mentioned competition as a factor limiting firms' pricing power. Charges rose in four sub-sectors, led by Transport & Storage.

## Input Prices Index

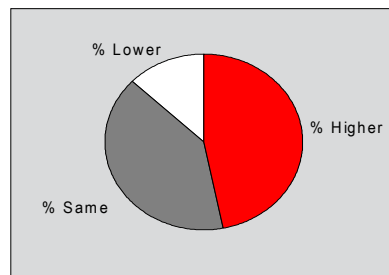
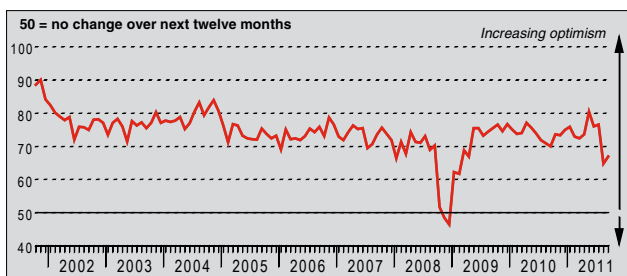
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



Average input prices paid by Russian service providers continued to rise in September. Anecdotal evidence linked cost pressures to fuel and utilities. The pace at which costs increased continued on a downward trend, however, as the seasonally adjusted Input Prices Index reached an 11-month low. The Index remained below its long-run average of 61.4. Continuing the recent trend, firms in the Transport & Storage sector registered the strongest rate of input price inflation of all sub-sectors in September.

## 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?



Having deteriorated sharply in August, business sentiment regarding the longer-term outlook in the Russian services sector remained relatively weak in September. As was the case the previous month, a majority of survey respondents expect activity in 12 months' time to be either unchanged from or lower than current volumes. The Business Expectations Index rose since August, but was still the second-lowest since February 2009. Worsening economic conditions both at home and globally were put forward as reasons for negative 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.

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