

HSBC Russia Services PMI® (with Composite PMI data)

Expansion of services sector remains sluggish in September

Summary

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. This followed data showing a further stagnation of the manufacturing sector and, across both sectors, output growth was the slowest in a year.

The Services 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. Manufacturing output rose only marginally (50.5), while a Composite Output Index for both sectors eased to a 12-month low of 52.3.

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. Manufacturing new orders were flat and, overall, growth of new business across both sectors slowed for the sixth month running.

A forward-looking indicator from the services 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, but at a weak rate. Manufacturers shed staff on average for the second month running, resulting in only a marginal overall increase across both sectors.

Overall input cost pressures continued to ease in September, reaching 11- and 26-month lows in services and manufacturing respectively. Service providers continued to report rising prices for fuel and utilities, while manufacturers noted that rouble weakness had raised the price of imported goods.

Competitive pressures continued to limit Russian firms' ability to raise output prices in September. Output price inflation at the composite level eased to an 18-month low, with manufacturers' prices rising at a weaker rate than service sector charges. Output price inflation hit a 22-month low in manufacturing, and an 11-month low in services.

Comment

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

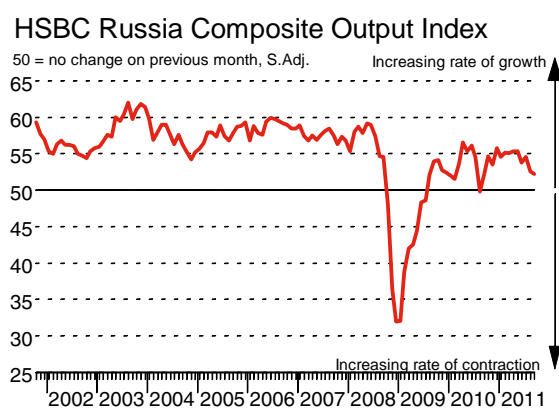
"The HSBC Russia Services and Composite PMI survey for September reflected growing downside risks for the economy. The services sector sustained a moderate level of economic expansion in September, while overall output growth in the economy edged down due to slower production growth in manufacturing. Overall growth of new orders in the economy has now been moderating for six consecutive months. Also, the decline in the PMI Outstanding Business Index speaks for slower demand growth in the service sector. This is a worrisome sign, pointing to a likely further slowdown in economic expansion in the coming months."

"Of course, ongoing strong growth in agriculture, which the HSBC PMI surveys do not capture, may keep overall GDP growth robust for a few more months. However, the rate of economic expansion in Russia would likely eventually decelerate to 2-2.5% or below on the annualized basis if presently very low output growth and lasting stagnation of new orders in manufacturing continues."

Key points

- Overall output growth eases to 12-month low
- Weakest rise in services new business for a year, manufacturing new orders flat
- Business expectations at service providers improve slightly, but remain relatively subdued

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.

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