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HSBC Russia Services PMI®

Russian services expansion remains below-trend in October

Key findings:

- Activity growth remains moderate
- New business expansion accelerates, but remains modest
- Business expectations weakest since February 2009

The latest *PMI*® data compiled by Markit for HSBC showed that Russia's service sector remained on a weak growth trajectory at the start of the final quarter. Rates of expansion in output, new business and employment remained relatively slow, and firms reported the worst 12-month outlook for activity since February 2009. Cost inflationary pressures were at their weakest in a year, although service providers noted a stronger rise in their own charges.

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 for the second month running in October, registering 53.5. That was broadly similar to August's 11-month low of 53.2, and well below the long-run survey average of 56.6. Data for the first ten months of 2011 point to a moderate rate of expansion (54.6) that was only marginally stronger than growth over 2010 as a whole (53.9).

Underpinning the lacklustre rise in total Russian services activity was a moderate increase in new business. New workloads have risen every month since September 2010, but the pace of expansion has so far failed to meet pre-crisis levels.

Indicative of a lack of pressure on operating capacity, the

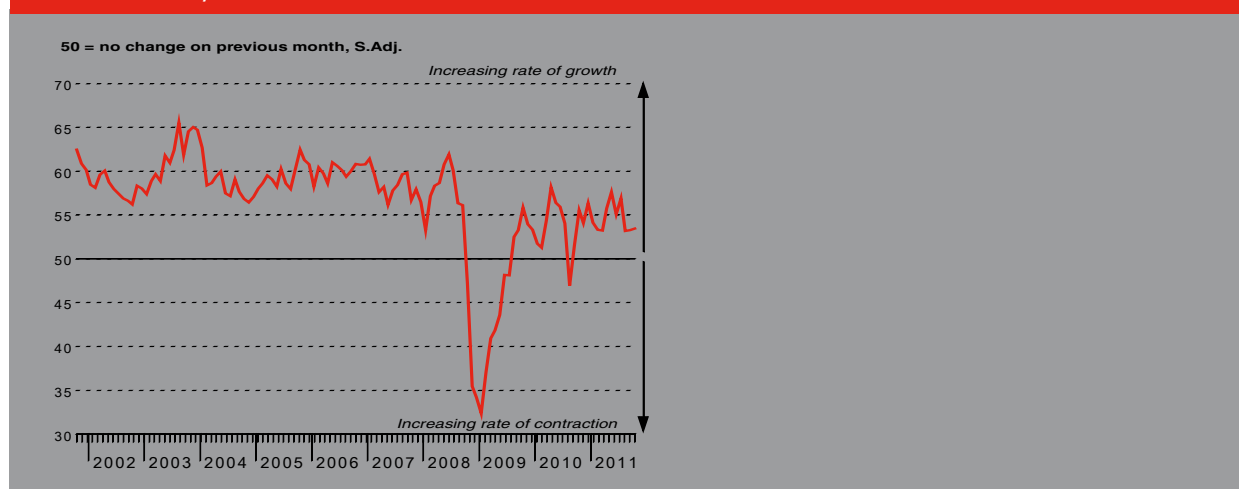
volume of outstanding business at Russian service sector companies declined in October compared with one month previously. The current sequence of declining backlogs now stretches to 11 months. Moreover, outstanding work fell in all areas of the services economy except for Financial Intermediation.

Services employment in Russia rose for the twelfth month in succession in October. The rate of growth was the fastest since July, but still relatively weak in the context of the ten-year survey history. Employment fell in two sub-sectors during the month, namely Hotels & Restaurants and 'Other Services'.

Input price inflation in the Russian service sector slowed for the third month running in October. The rate of increase in average input prices was the weakest since October 2010, and well below the long-run survey average. Firms continued to report higher fuel prices and, reflecting this, Transport & Storage posted the fastest rate of input cost inflation of all sectors covered. Meanwhile, prices charged by service providers rose at the strongest rate in three months in October – though again the rate of inflation was weaker than the ten-year survey average.

The twelve-month outlook for the Russian service sector deteriorated in October. Although survey respondents expect activity to rise by October 2012, the degree of optimism was the weakest since February 2009. Anecdotal evidence linked weaker sentiment to poor consumer confidence, the international economic outlook and the upcoming elections.

Business Activity Index

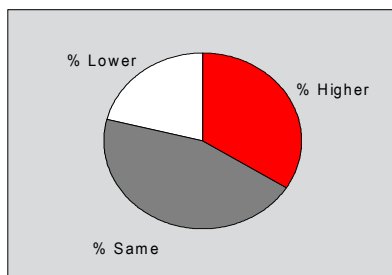
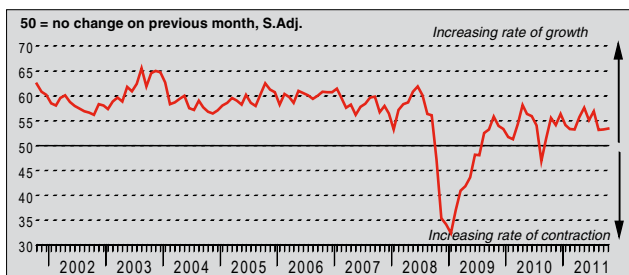


The survey uses a methodology identical to the HSBC Russia Manufacturing *PMI*®. The survey uses a panel of regularly participating companies to monitor trends in business conditions in the private sector services economy. The panel has been carefully selected to accurately replicate the true structure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

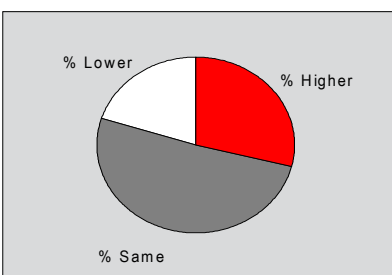
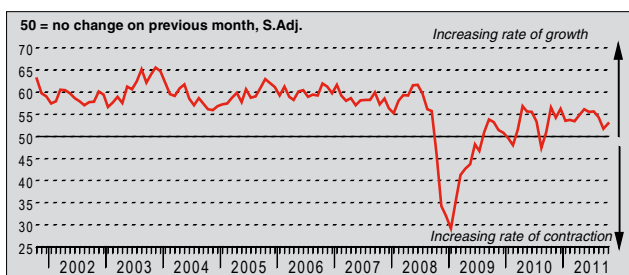
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



The seasonally adjusted Business Activity Index remained above the no-change mark of 50.0 for the fourteenth successive month in October, signalling rising activity in the Russian service sector. Some firms reported winning new customers during the month. The figure was little-changed from the previous two months, however, and signalled a relatively modest rate of expansion that was well below the long-run survey average. By sector, activity growth was strongest in Post & Telecommunication while Transport & Storage registered a steep fall.

New Business Index

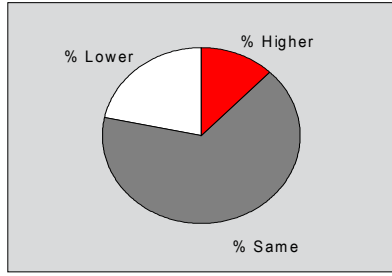
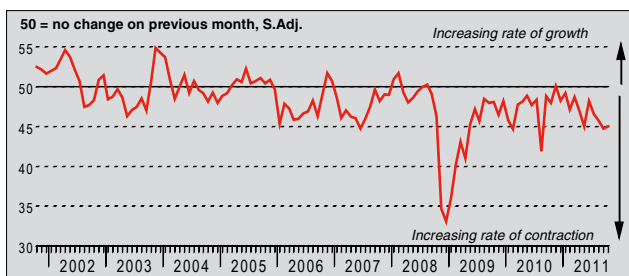
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



Russian service providers' intakes of new work rose in September, partly linked by firms to more international business. The current sequence of growth now stretches to 14 months. The seasonally adjusted New Business Index improved on September's 12-month low, signalling a faster rate of expansion. That said, it remained weak in the context of historic survey data. New business rose markedly in Post & Telecommunication but declined in Transport & Storage.

Outstanding Business Index

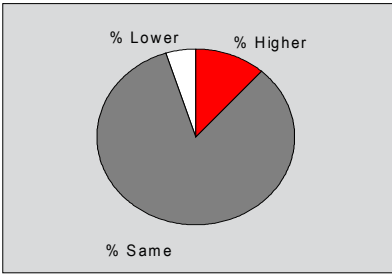
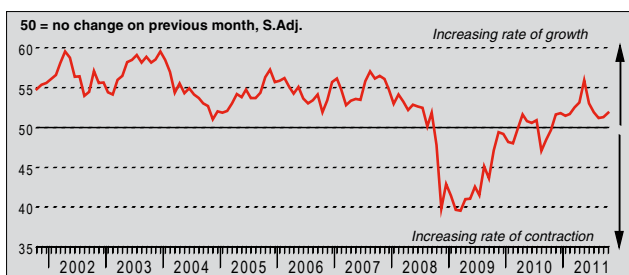
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



Outstanding business in Russia's service sector declined for the eleventh successive month in October, signalling a general lack of pressure on operating capacity. The rate of contraction remained sharp, and was little-changed from September. All sectors registered lower outstanding business except for Financial Intermediation. The steepest drop was seen in Hotels & Restaurants.

Employment Index

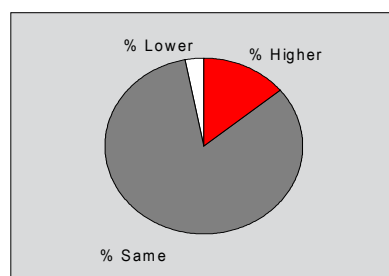
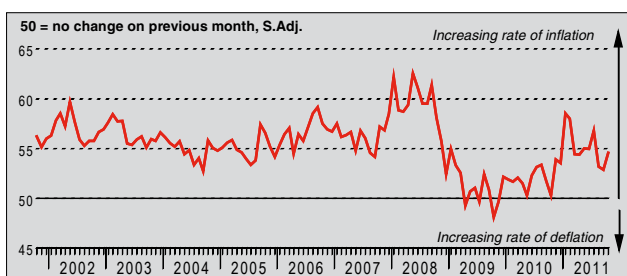
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



Russian service providers continued to expand their workforces on average in October. This brought the current run of continuous job creation in the sector to one year. The seasonally adjusted Employment Index rose to a three-month high, signalling a faster rate of growth, but one that remained below the long-run survey average (52.9). Employment rose in four sectors, led by Post & Telecommunication and Financial Intermediation. Job losses were reported in Hotels & Restaurants and 'Other Services'.

Prices Charged Index

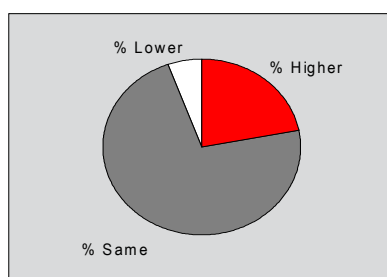
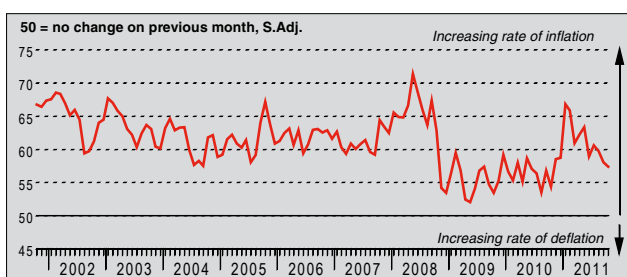
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Prices charged by Russian service providers rose at the fastest rate in three months in October. The seasonally adjusted Prices Charged Index recovered the ground lost in September, but was still below the average for 2011 so far (55.3). Almost five times as many companies reported higher charges than those that made discounts during the month. The Index has remained above the no-change mark of 50.0 since December 2009. Charges rose at the fastest rate in Transport & Storage, and fell slightly in Hotels & Restaurants.

Input Prices Index

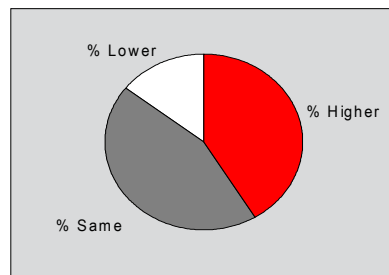
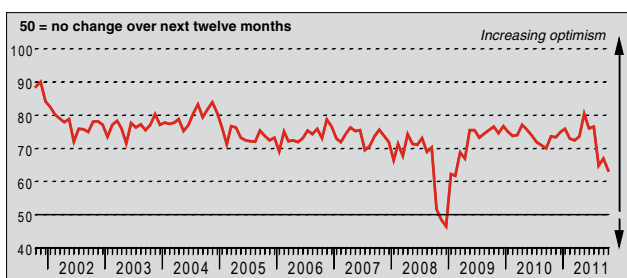
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



Cost pressures faced by Russian service providers eased during October. The seasonally adjusted Input Prices Index moved down for the third month running, and signalled the weakest rate of inflation since October 2010. The rate of input cost inflation slowed in all sectors except for Financial Intermediation. Transport & Storage continued to record the sharpest increase in input prices.

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?



The year-ahead outlook for the Russian service sector remained muted in October. The Business Expectations Index, tracking firms' anticipated workloads in 12 months' time, remained well down on its trend level. The latest figure signalled the worst expectations since February 2009, although service providers do expect activity growth on average. Business expectations worsened in all sectors except Post & Telecommunication. The weakest outlook was in Hotels & Restaurants.

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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