

HSBC Russia Services PMI® (with Composite PMI data)

Russian services expansion remains below-trend in October

Summary

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 Q4. That followed a similarly weak snapshot of the manufacturing sector, resulting in only a modest rise in overall private sector activity.

The Services 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. Readings above 50.0 signal growth of activity compared to the previous month, and below 50.0 contraction. A composite Output Index for manufacturing and services registered 52.5, the second-weakest figure since September 2010.

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. Meanwhile, manufacturing new orders rose for the first time in four months, albeit only marginally.

Indicative of a lack of pressure on operating capacity, the volume of outstanding business at Russian service sector companies declined sharply in October compared with one month previously. Similarly, manufacturers cut backlogs at the fastest rate since June.

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. Manufacturers shed jobs for the third month running meanwhile, resulting in only a marginal overall increase across both sectors.

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. Manufacturing input cost inflation accelerated to a three-month high, but still remained relatively weak.

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.

Comment

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

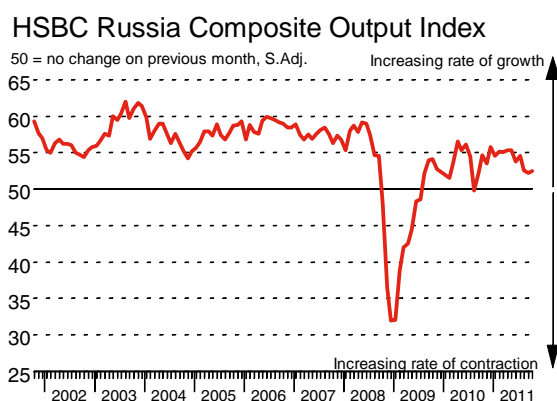
"The Russian economy is on cruise control with a speed limit of 3% for annualized GDP growth – the HSBC Russia Composite and Services PMI showed in October. This is not bad news after all, taking into account sluggish yet positive growth momentum in manufacturing and modest but steady growth in services. Downside risks still prevail, but a possible slowdown in the coming quarters would be very gradual."

"Inflation pressures have declined considerably from their 1Q peaks, especially in manufacturing. At the same time, both costs and output prices in the economy rose somewhat faster in October than in the previous month, breaking a recent downward trend. Stronger growth of private consumption and weaker RUB might be the reasons for that. We hope that inflation in manufacturing and services will stabilize rather than accelerate going forward, but it is worth watching the inflation trend more closely in the next few PMI releases for the proof."

Key points

- Composite Output Index at 52.5, signalling muted growth
- Services activity growth remains moderate
- Business expectations weakest since February 2009

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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