## **HSBC Purchasing Managers' Index™ Press Release**

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# HSBC Russia Services PMI®

## Russian services growth picks up in January

## **Summary**

The Russian service sector started 2012 on a bright note as growth of business activity accelerated to a sixmonth high, according to HSBC PMI data compiled by Markit. In contrast, manufacturing business conditions improved only marginally.

The headline figure for the services survey is the seasonally adjusted HSBC Russia Services Business Activity Index. Readings above 50.0 signal growth of activity compared with the previous month, and below 50.0 contraction.

After adjusting for seasonal variation, the Services Business Activity Index posted 56.5 in January, up from 53.8 in December. That signalled the strongest rate of growth since last July, and extended the current expansionary sequence to 17 months. Moreover, the Index was broadly in line with its long-run average during the month (56.6). The comparable Manufacturing Output Index fell, however, to 50.7, signalling only marginal growth. The Composite Output Index covering both sectors rose to 54.4 on the back of the services figure.

New business growth at Russian service providers accelerated in January. The rate of expansion was the second-fastest in the post-crisis period, almost matching April 2010's peak. Meanwhile, manufacturing new orders rose at the weakest rate in three months.

The level of outstanding business in both sectors continued to fall. Backlogs at service providers have declined every month since December 2010, and the rate of depletion in the latest period was the fastest in three months. Manufacturing backlogs were cut at the fastest rate since last June.

Russian service sector employment rose at the fastest pace since May 2011. Manufacturers also increased their workforces, albeit at a softer rate than their service sector counterparts.

Price pressures in the Russian manufacturing and service sectors remained subdued in January. The rate of input price inflation in services eased to a fifteenmonth low, and inflation of manufacturers' input prices remained much weaker than the long-run survey average. Output price inflation also remained relatively weak in both sectors.

Forward-looking services business expectations data recovered in January. Having been the weakest in three years in December, the degree of positive sentiment strengthened sharply in the latest period, as around 42% of firms expect higher activity in 12 months' time.

#### Comment

Commenting on the Russia Services and Composite  ${\sf PMI}^{@}$  survey, Alexander Morozov, Chief Economist (Russia and CIS) at HSBC, said:

"The New Year holidays seem to have recharged the batteries of service providers. Both the New Business and Business Activity indexes in the service sector have increased to their historic average values. Service providers intensified new hiring as well. So, not surprisingly, business expectations have improved significantly from the three-year low of the previous month.

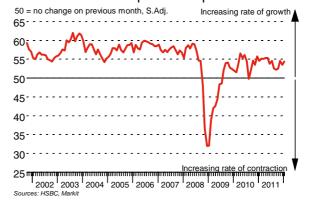
"What could have triggered such a positive change? Two things, we think. First, the government spent a larger than usual chunk of money in late-December. We may have seen a positive impact of that in the January PMI results. Second, banks surged lending in December, which may have been transformed into higher demand for consumer services. If this explanation is right, then the current benign stance of business activity in the service sector will unlikely stay for long. Probably, Russia will need another long holiday season by then?"

## **Key points**

- Services activity growth strengthens to six-month high
- Composite Output Index improves to 54.4
- Input price inflation softens to 15-month low

#### **Historical Overview**

#### **HSBC** Russia Composite Output Index



Sources: Markit, HSBC.





## For further information, please contact:

#### **HSBC**

Julia Molchanova Telephone + 7 495 721 1515 Email HSBC Russia PR@hsbc.com

#### Markit

Trevor Balchin, Senior Economist
Telephone +44-1491-461-065
Email trevor.balchin@markit.com

Rachel Harling, Corporate Communications Telephone +44-20-7064-6283 Mobile +44-782-789-1072 Email rachel.harling@markit.com

## **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 <a href="mailto:economics@markit.com">economics@markit.com</a>.

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