

HSBC Russia Services PMI®

Russian services growth remains solid in February

Summary

The Russian service sector continued its positive start to 2012 in February, despite a slight loss of momentum, according to HSBC PMI® data compiled by Markit. In contrast, manufacturing business conditions continued to improve only marginally. Inflationary pressures in both sectors remained subdued.

The headline HSBC Russia Services Business Activity Index remained above the no-change threshold of 50.0 in February, signalling ongoing expansion of services output in Russia. The Index slipped from January's six-month high of 56.5, to 55.3, but was nonetheless the second-highest figure in the past seven months and indicative of a solid rate of growth. A composite Output Index combining indicators for manufacturing and services eased to 53.7, reflecting a further marginal rise in manufacturing output (50.8).

Higher new business intakes supported growth of total services activity. Mirroring the trend for activity, new workloads increased for the eighteenth month running, albeit at a softer rate than at the start of the year. New orders in manufacturing rose only modestly.

Outstanding business at Russian service providers continued to decline in the latest period, reflective of relatively modest new business growth in comparison with the survey's long-run trend. Similarly, backlogs fell solidly at manufacturers.

The rate of job creation in Russia's private sector services economy remained solid in February, little-changed from January's eight-month high. Manufacturers raised headcounts for the fourth month running, but the rate of expansion was only marginal in February.

Inflationary pressures remained muted in February. Input cost inflation eased to a 16-month low in services, and to a 32-month low in manufacturing. Where costs did rise, this was linked by service providers mainly to salaries, rents, utilities and fuel. Goods producers mainly mentioned raw material prices. Charges levied by service providers rose at a solid pace, but manufacturing output prices were flat on the month.

Just under half of all services respondents (47%) expect that activity at their units will be higher in 12 months' time. That remained less than the long-run survey average (54%), but the overall degree of positive sentiment improved for the second month running to the highest since last July.

Comment

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

"The Russian services sector lost its enthusiasm obtained in the beginning of the year, but remained the locomotive of economic growth mid-way through Q1 2012. The current level of the Composite PMI Index is consistent with GDP growth below 4%, which is not bad. The problem is that services-led growth has its limitations, and usually follows suit of the manufacturing sector. So, most likely, the observed divergence in dynamics between services and manufacturing that first emerged in December cannot be sustained for long. And the spread is more likely to be narrowed due to slower services output momentum, rather than an improved performance from manufacturing. Current services sector growth is mainly driven by strong domestic demand. However, mounting inflationary pressures in 2H 2012 and an absence of external demand for manufacturing goods points to consumers' appetites waning in the rest of the year. High commodity prices and sovereign debt problems in the Euro zone are weighing negatively on the global economy, while Russian exports are close to stagnation."

Key points

- Services activity growth eases slightly from January's six-month high
- Composite Output Index falls to 53.7
- Inflationary pressures remain muted

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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