

HSBC Russia Services PMI®

Russian services growth eases for second month running in March

Summary

The Russian service sector continued to expand in March, but lost further momentum since the start of the year, according to HSBC PMI data compiled by Markit. Activity growth was the weakest in three months, but new business growth remained strong and expectations continued to improve gradually.

The HSBC Russia Services Business Activity Index remained above the no-change threshold for the nineteenth month in succession in March, signalling sustained expansion of services output in Russia. That said, the Index eased further from January's six-month high, was below its long-run trend level of 56.6. The latest figure of 54.4 was down slightly from 55.3 in February. A Composite Output Index covering both manufacturing and services was little-changed at 53.6, reflecting a slightly faster gain in manufacturing output (52.1).

New business expansion supported growth of total activity in services. Moreover, the rate of expansion was strong, and only slightly behind the survey's long-run average. In contrast, manufacturing new orders registered only a modest gain.

The robust rise in new business was not sufficient to place substantial pressure on Russian service sector capacity, however. The volume of outstanding business continued to fall in March, extending the current sequence of depletion to 16 months. Backlogs also fell in manufacturing.

Russian service providers expanded their workforces solidly in March. The current sequence of job creation in the sector now stretches to 17 months. In contrast, manufacturers shed jobs for the first time in five months.

The longer-term outlook in the service sector continued to brighten in March, albeit gradually. Expectations regarding activity over the coming 12 months remained positive, and the degree of sentiment was the strongest since July 2011. That said, it remained weaker than the survey's historic trend.

The rate of input price inflation edged up in March, but was still weak in the context of historic survey data. The main source of rising costs were labour and rents. A similar trend was evident for prices charged by Russian service providers. The rate at which firms increased their own prices during 2012 so far has been weaker than both the average for 2011, and that seen throughout the ten-and-a-half-year survey history. Inflation pressures also remained subdued in manufacturing.

Comment

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

"The Russian economy kept growing at a rate somewhat exceeding its potential, the HSBC Russia Composite PMI showed in March. Current economic growth has moderated slightly over the past two months. It is lower than in 2010-2011 and corresponds to an annualized rate of 3.5-4.0% GDP growth, on our estimate. Inflationary pressures have also eased to about two-thirds of the strength that prevailed in the two preceding years.

In other words, macroeconomic dynamics have become more stable but have gradually lost momentum. Business expectations in the service sector have been adjusted accordingly: despite a modest improvement in March, they remain lower than they used to be on average in 2010-2011. At the same time, still expecting further business expansion, companies keep increasing their payrolls quite actively. They may have become concerned about increased competition for labour, with February unemployment falling to an historic low for this season."

Key points

- Services activity growth weakest in 2012 so far
- Composite Output Index stable at 53.6
- Services expectations continue to edge up

Historical Overview



For further information, please contact:

HSBC in Russia

Julia Molchanova
Telephone + 7 495 721 1515
Email julia.molchanova@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 economics@markit.com.

HSBC:

HSBC is one of the world's largest banking and financial services organisations. With around 7,200 offices in both established and faster-growing markets, we aim to be where the growth is, connecting customers to opportunities, enabling businesses to thrive and economies to prosper, and ultimately helping people to fulfil their hopes and realise their ambitions.

We serve around 89 million customers through our four global businesses: Retail Banking and Wealth Management, Commercial Banking, Global Banking and Markets, and Global Private Banking. Our network covers 85 countries and territories in six geographical regions: Europe, Hong Kong, Rest of Asia-Pacific, Middle East and North Africa, North America and Latin America. Our aim is to be acknowledged as the world's leading international bank.

Listed on the London, Hong Kong, New York, Paris and Bermuda stock exchanges, shares in HSBC Holdings plc are held by over 220,000 shareholders in 132 countries and territories.

About Markit:

Markit is a leading, global financial information services company with over 2,300 employees. The company provides independent data, valuations and trade processing across all asset classes in order to enhance transparency, reduce risk and improve operational efficiency. Its client base includes the most significant institutional participants in the financial market place. For more information please see www.markit.com

About PMIs:

Purchasing Managers' Index™ (PMI®) surveys are now available for 32 countries and also for key regions including the Eurozone. They are the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to www.markit.com/economics

The intellectual property rights to the HSBC Russia Services and Composite PMI® provided herein is owned by Markit Economics Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. *Purchasing Managers' Index™* and *PMI®* are trade marks of Markit Economics Limited, HSBC use the above marks under license. Markit and the Markit logo are registered trade marks of Markit Group Limited.

The HSBC Group, HSBC means HSBC Holdings plc, the company established in accordance with and regulated by the laws of England and Wales, and/or HSBC Bank plc, the Bank established in accordance with and regulated by the laws of England and Wales, and every company that is a member of the group, controlled by this Bank.

ООО HSBC Bank (RR) («Bank», «HSBC in Russia»). General license issued by the Bank of Russia 3290. 2 Paveletskaya Square, Building 2, Moscow 115054 Russia.