HSBC Purchasing Managers' Index™ Press Release

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compiled by markit

HSBC Russia Services PMI®

Russian services growth slows to modest pace

Summary

The Russian service sector lost growth momentum in April, according to HSBC *PMI®* data compiled by Markit. The rate of growth of activity eased further from January's sharp pace, and was the slowest since September 2010. In contrast, the manufacturing sector registered a stronger rise in output. Inflationary pressures generally remained muted in both sectors.

The HSBC Russia Services Business Activity Index remained above the no-change threshold of 50.0 for the twentieth month in succession in April. That said, the Index moved lower for the third consecutive month, to 52.6. That was the lowest figure since September 2010, and signalled only a moderate increase in business activity since March. A Composite Output Index covering both manufacturing and services was broadly stable at 53.4, from 53.6 in March, as goods production rose at a faster pace (54.8).

The overall loss of services growth momentum in April reflected a slower increase in new business. Survey data signalled the weakest expansion in six months, and a pace that remained weak in the context of the survey history. In contrast, manufacturing new order growth accelerated.

The volume of outstanding business held in Russia's private sector services economy was little-changed from one month earlier. Backlogs of work have rarely risen since the start of 2008, reflecting a general lack of pressure on business capacity. Backlogs fell moderately at goods producers.

Services companies in Russia expanded their workforces in April. Employment has risen every month since November 2010. The rate of job creation in the latest period was, however, the weakest over this sequence. Meanwhile, manufacturing employment rose at the strongest pace for over a year.

Services business expectations regarding activity trends in 12 months' time remained strongly positive in April. The overall degree of sentiment was broadly similar to March's eight-month high, with firms anticipating an improvement in both domestic and international market conditions.

Inflationary pressures remained relatively muted in the latest survey period. Input price inflation in services moderated on the month, and was the weakest since October 2010. Manufacturers also faced a relatively modest increase in average input costs. Output price inflation also remained below-trend in both sectors.

Comment

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

"The HSBC Russia Services PMI has disappointed, losing much of its growth momentum in April. Structurally, only one service sector, Hotels & Restaurants, reported buoyant growth of business activity. This sector had been depressed for a longer time than others in the aftermath of the economic crisis, and now seems to be catching up. However, the rather bleak results of other service sectors suggest that Hotels & Restaurants will unlikely sustain strong growth unless other areas start growing faster.

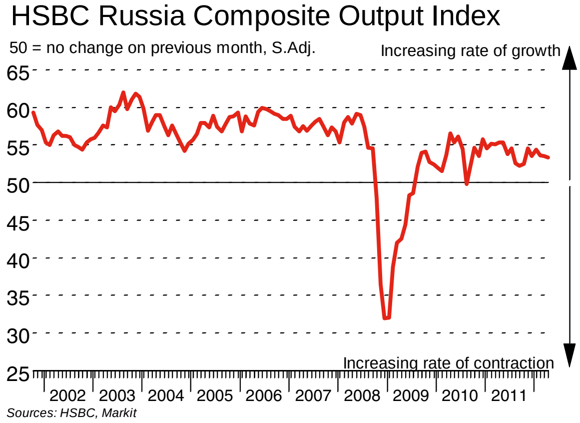
"Despite easing cost pressures, service companies more readily increased their tariffs in April. This may point to companies' inability to keep absorbing rising costs through declines in their profit margins. So, inflation in the service sector may accelerate, albeit only moderately given weakened demand growth and slower rises in input prices.

The weak Services PMI figures offset strong data from the Manufacturing PMI that had been published just a few days ago. Overall, the economy kept growing modestly in April, but continued easing its growth momentum. Unless stronger exports and domestic demand expansion in manufacturing continues, economic growth will weaken further."

Key points

- Composite Output Index broadly stable at 53.4.
- Services activity growth weakest since September 2010
- Inflationary pressures remain weak by historic survey standards

Historical Overview



Sources: HSBC, Markit

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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.

HSBC:

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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