HSBC Purchasing Managers' Index™ Press Release

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HSBC Russia Services PMI®

Russian private sector growth at six-month high in May

Summary

The Russian private sector economy registered an improved performance in May, according to HSBC PMI[®] data compiled by Markit. Total output across manufacturing and services increased at the strongest rate in six months, led by services.

The HSBC Russia Services Business Activity Index improved from April's 19-month low of 52.6, to 54.9, indicating the fastest expansion since February. Growth remained weaker than the long-run survey average, however, and the trend for Q2 so far is slower than that registered for the first quarter. Manufacturing output rose at a softer rate (53.8), but the Composite Output Index covering both sectors nevertheless improved to a six-month high of 54.5.

In line with the trend for services activity, the volume of new business received by Russian services providers increased at a sharper rate than in April. New order growth at manufacturers also accelerated, to the fastest since March 2011. Meanwhile, backlogs of work fell in both sectors in May. The rates of contraction were broadly similar.

Service sector employment in Russia rose in May, continuing the trend since November 2010. The rate of growth was moderate, and only slightly weaker than the long-run average. Manufacturers expanded workforces at a broadly similar rate during the month.

Inflationary pressures remained weak in the context of both survey histories in May. The rate of input price inflation in services over the past two months has been the weakest since October 2010. Only 18% of monitored firms reported higher input prices than one month previously, mainly attributed to salaries, fuel and rents. Meanwhile, manufacturers' input prices increased at the second-slowest rate in nearly three years.

Pricing power remained weak in both manufacturing and services. Service providers increased their own charges, but the rate of inflation was weaker than the long-run trend. A similar trend was evident in manufacturing.

Service providers' expectations for activity over the next 12 months remained positive in May, but were the weakest since January. Around 46% of the survey panel expect growth, linked to domestic and international economic stability, new products and internal company developments.

Comment

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

"The HSBC Russia PMIs registered rebounds in economic activity in both manufacturing and services in May. This is a strong result against a backdrop of rather bleak official economic activity indicators and the sell-off on the Russian financial markets. It looks like Buranovskiye Babushki's Eurovision hit 'Party for Everybody' has passed all its energy to Russian businesses, helped by the summer weather that has arrived to Central Russia early this year. More seriously, we must be observing a positive effect of the transmission of increased oil & gas windfalls to the rest of the Russian economy, particularly consumer goods and services. Supporting this argument, hotels & restaurant services kept expanding at the fastest rate in May, pointing to a high level of consumer confidence and readiness to spend.

"All in all, it is not worth being too excited with the PMI numbers. Economic growth has just improved to an annualized rate of about 4%, breaking a deceleration trend. But oil prices have declined profoundly from their April peaks, so the party risks ending pretty soon.

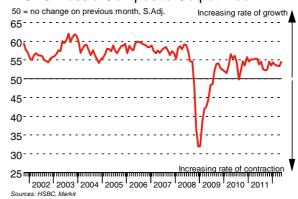
"What is good indeed in the PMI release is that price pressures remain well contained in both manufacturing and services. So, apart from the negative base effects that should start pushing headline CPI up since June, other risks to inflation remain low. Whether these base effects, together with the weaker rouble, give a rise to higher inflationary expectations and trigger a second round negative effect on inflation down the road, remains to be seen."

Key points

- Composite Output Index improves to 54.5.
- Services activity growth at three-month high
- Inflationary pressures remain weak

Historical Overview

HSBC Russia Composite Output Index







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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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