

HSBC Russia Services PMI®

Russian services growth slows in June

Summary

The business climate in Russia's private sector showed signs of weakening in June, according to HSBC PMI® data compiled by Markit. The rate of growth in total services activity eased, rounding off the weakest quarter since Q1 2011. Combined with a slower rise in manufacturing production, overall private sector output grew at the softest pace in eight months in June.

The headline figure for the survey is the seasonally adjusted HSBC Russia Services Business Activity Index, a single-figure measure designed to track changes in total Russian services activity compared with one month previously. The Index fell for the fourth time in five months in June, from 54.9 to 53.2. That signalled the second-weakest rate of growth since last August. Over the second quarter as a whole, the Index averaged 53.6, the lowest since Q1 2011. The Composite Output Index, covering manufacturing and services, fell to an eight-month low of 52.6 in June.

New business placed with Russian service sector companies increased at a much slower pace in June. The rate of new business expansion was the weakest since September 2010, when growth resumed following the heatwave-related disruption of the previous month. Manufacturing new orders also rose at a slower pace.

Lacklustre gains in new work placed little pressure on service providers' business capacity in June. The volume of outstanding business declined at the fastest rate since January. Manufacturing backlogs also declined at a solid rate.

Job creation in the Russian services sector slowed almost to a halt in June. Broadly the same proportion of firms raised staffing as those that cut workforces. Moreover, manufacturers cut staff slightly during the month, resulting in broadly no change at the composite level.

Input price inflation edged up in June to a three-month high, but remained weak in the context of historic survey data. Meanwhile, manufacturers' average input prices rose at the slowest rate in the current 41-month sequence of inflation. Similarly, output price inflation remained relatively weak in both sectors.

Russian service providers expect growth of activity over the next 12 months, linked to business investment, improving market conditions and the development of new products. That said, the overall degree of confidence weakened for the third successive month, to the lowest since last December.

Comment

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

"June brought a broad-based weakening of economic growth momentum in Russia, according to the HSBC Russia Services and Composite PMI survey. Services joined manufacturing reporting slower output growth, with two out of six Russian service sectors reporting output contraction in June. Marked declines in the New Business and Outstanding Business Indexes in the services sector probably points to even weaker economic growth down the road. While cost pressures intensified marginally in June, service providers have lost much of their pricing power. In this context, companies might start shedding labour and putting brakes on wages growth soon in order to retain control over costs."

"So, the Russian economy cools off and one should expect more cooling to take place in the next couple months. This trend may end up in stagnation before the year-end without a rebound in oil prices and stronger global economic growth. Yet, it would be perhaps premature to try stimulating the Russian economy via fiscal policy at this point. After all, the counterfactual oil price, at which the federal budget is balanced with already-approved expenditures, has risen to 110 USD/bbl (Urals) in 2012, on our estimates. Structural reforms aimed at business facilitation and the removal of administrative barriers would be the most appropriate answer to this challenge, we believe."

Key points

- Services growth slows for fourth time in five months
- Composite Output Index at eight-month low of 52.6
- Services expectations weakest so far in 2012

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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About PMIs:

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