

# HSBC Russia Services PMI®

## Slower rise in services activity offsets stronger gain in manufacturing output

### Summary

Russian private sector growth remained lacklustre at the start of the third quarter, according to HSBC PMI® data compiled by Markit. The rate of growth in services activity eased to the weakest since September 2010, offsetting a stronger increase in manufacturing production.

The HSBC Russia Services Business Activity Index remained above the no-change threshold in July but fell from 53.2 to 52.0, indicating the weakest rate of expansion in 22 months. The Composite Output Index was unchanged from June's eight-month low of 52.6, as manufacturing output rose at a faster pace (53.6).

New business received by Russian service providers rose only fractionally in July, with the pace of expansion the slowest in the current 23-month sequence. A stronger gain in new orders at goods producers failed to prevent the overall rate of growth across both sectors slipping to a ten-month low.

With new services business barely rising during the month, the volume of incomplete contracts continued to fall. The rate of depletion eased from June's sharp pace, but remained faster than the long-run survey average. A similar trend was evident for manufacturing backlogs.

The 12-month outlook for services activity deteriorated sharply at the start of the third quarter. Just over one-third of firms expect activity to rise over the next 12 months, compared with 13% that forecast a reduction. The overall degree of positive sentiment weakened sharply as a result, to the worst in 2012 so far and the second-lowest in over three-and-a-half years.

Russian service sector companies took on additional staff in July. The rate of workforce growth picked up from June's marginal pace, and was broadly in line with the average for 2012 so far. In contrast, manufacturing employment was unchanged since June.

The overall rate of input price inflation in manufacturing and services strengthened to a six-month high in July, but remained weaker than the long-run survey trend. Anecdotal evidence linked rising cost pressures to energy, fuel, utilities and labour costs. Services registered a stronger increase in input prices than manufacturing.

Service providers and manufacturers both increased their charges at faster rates during the month. In line with the pattern for input costs, the rate of charge inflation in services was stronger than that posted in manufacturing. In both sectors, however, output price inflation remained relatively weak.

### Comment

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

*"The Russian economy retained subdued growth in July, HSBC Russia Composite PMI® data showed. Manufacturers managed to stabilize output growth, albeit at a low rate. In contrast, service providers still saw weakening growth momentum further to very weak new business flows. Importantly, a growth deceleration trend in services has been in place since 2H 2011 and has not stopped yet. Similar to manufacturing, Russian service providers have also split into two groups: one expanding and one contracting. The existence of the two groups points to increased uncertainty regarding the future economic growth trend."*

*"We reckon that, growing at about 2.7% in annualized terms at present on our estimates, Russian GDP risks further losing growth momentum in the coming months before it will be able to stabilize at 2.0-2.5%."*

*"Although inflationary pressures intensified in both manufacturing and services in July, we believe they do not raise much concerns. Slower demand growth should enable producers to pass only some inflationary pressures on customers. So, the key risk to inflation stems from a mounting supply shock in the food sector, rather than the demand side. This type of inflation can hardly be addressed by conventional monetary policy."*

### Key points

- Composite Output Index unchanged from June's eight-month low
- Services growth at 22-month low
- Expectations in service sector weaken sharply

### 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](mailto:economics@markit.com).

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*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](http://www.markit.com/economics)

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