HSBC Purchasing Managers' Index™ Press Release

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HSBC Russia Services PMI®

Private sector growth accelerates in September

Summary

Russian private sector growth improved at the end of the third quarter, according to HSBC PMI[®] data compiled by Markit. Total activity rose at the fastest rate since May, with growth rates in both manufacturing and services improving. Confidence regarding the 12-month outlook in services improved, and firms in both sectors recruited more staff.

The HSBC Russia Services Business Activity Index remained above the no-change threshold for the twenty-fifth month in succession in September, signalling a further increase in Russian services output. Moreover, the Index rose further from July's low of 52.0, to 54.5, indicative of a solid pace of expansion. The Composite Output Index improved to 54.3, partly reflecting a stronger increase in manufacturing production (53.9).

Incoming new business in services increased at the fastest rate since May, albeit one that remained weak in the context of the 11-year survey history. New business growth also accelerated in manufacturing.

September data marked a steep reduction in outstanding business in Russia's service sector. The rate of depletion was the fastest since August 2010, and one of the strongest recorded since the survey began in October 2001. Meanwhile, manufacturing backlogs declined at the fastest pace since June 2011.

Reflecting a stronger increase in new business across the sector, Russian service providers hired more workers in September. The overall rate of job creation improved from August's marginal pace, and a similar trend was evident in the goods-producing sector.

Although the volume of work outstanding dropped sharply in September, service sector companies grew more confident regarding the 12-month outlook for activity. The overall degree of confidence was the strongest since April.

Cost pressures in the Russian service sector remained strong in September, despite easing slightly from August's nine-month peak. The rate of input price inflation was only slightly weaker than the survey's historic trend level, with price hikes in September linked to utilities, fuel, telecommunications and advertising costs. Meanwhile, manufacturers faced the steepest increase in input prices for 17 months. Service providers and manufacturers continued to increase their own charges for products and services, but the rates of inflation remained relatively weak.

Comment

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

"Both manufacturing and services markedly improved their performance in September, HSBC Russia Services & Composite PMI showed. A pick up in new business and business expectations is especially encouraging in this respect.

"What might have stimulated economic growth in Russia? Oil prices and the Fed/ECB must be standing behind the surprising pick up in business activity and expectations in Russia in September, we think. Indeed, oil prices have rebounded in 3Q generating extra revenues for the oil sector and removing the risk of recession in Russia, while the Central Banks' actions must have improved business confidence and calmed worries about a potential disintegration of the Euro zone.

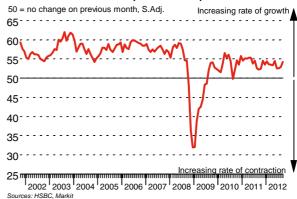
"Will the achieved growth momentum in Russia be sustained? Probably, not, since growth of the global economy keeps moderating. Yet, the good news is that the Russian economy still has some gunpowder for growth."

Key points

- Services Business Activity Index registers 54.5, highest since May
- Composite Output Index at five-month high of 54.3
- Input price inflation in services remains close to long-run trend level

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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