# **HSBC Purchasing Managers' Index™ Press Release**

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# HSBC Russia Services PMI®

# Russian private sector output growth at two-and-a-half year high in October

#### **Summary**

The Russian private sector economy continued to gain momentum at the start of the fourth quarter, according to HSBC PMI<sup>®</sup> data compiled by Markit. Growth rates for both manufacturing production and services activity accelerated, and incoming new business at service providers rose at a pace not seen since before the global financial crisis in late-2008.

The headline figure for the service sector survey is the seasonally adjusted HSBC Russia Services Business Activity Index, designed to track changes in total Russian services activity compared with one month previously. The Index rose for the third survey running to 57.3 in October, indicating the strongest rate of growth since May 2011. Meanwhile, manufacturing output growth strengthened to a 19-month high (55.3), and a Composite Output Index covering both sectors rose to 56.6 – the highest since April 2010.

The acceleration in Russian service sector activity growth in October mainly reflected a sharper increase in new business volumes. The pace of expansion in new workloads was the fastest since July 2008, in stark contrast to the marginal increase registered three months' previously. Overall new work across both sectors rose at the fastest pace since June 2008.

Having declined at the fastest rate in over two years in September, the volume of outstanding business held at Russian service sector companies contracted at a slower rate. A weaker fall in backlogs was also registered in manufacturing.

Russian service providers expanded workforces in October to meet increasing demand. The latest increase was the strongest since February. In contrast, manufacturing employment rose only marginally.

Input prices paid by Russian private sector firms providers continued to rise in October, albeit at the slowest rate in three months and one that remained weak compared with the long-run series average. Output price inflation also remained weak in the context of historic survey data.

When asked about their expectations for total business volumes in 12 months' time, Russian service providers were strongly optimistic. The overall degree of positive sentiment dipped slightly since September and remained weaker than the long-run survey average, but was nevertheless stronger than the trend seen over the summer. Firms expect company investment plans and growth of the overall Russian economy to support activity.

#### Comment

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

"Russian service providers supported manufacturers in reporting strong improvements in business activity and new orders in October. It looks like we are back to the 'golden' precrisis years in this respect, with an extra bonus of lower inflationary pressures in the economy now.

"Is it a temporary local peak of business activity or the beginning of a more sustainable faster economic growth? A structural breakdown of PMI indicators revealed that export demand stagnated along with demand in the Transport & Storage sector. At the same time, Hotels & Restaurants and Financial Intermediation (i.e. retail lending) sectors reported the strongest rates of activity growth. In other words, it is private consumption that has given a strong boost to the Russian economy. If so, sustaining robust growth rates would be problematic without support from the global economy. The recent improvements in PMI indicators in key emerging markets give a hope that the global economy will be able to provide at least some support for Russian exports.

"Overall, we consider economic growth in Russia in October being higher than its trend level that we still estimate at about 2.5% a year."

### **Key points**

- Composite Output Index rises to 56.6
- Strongest increase in service sector new business in over four years
- Manufacturing output growth at 19-month high

## **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 <a href="mailto:economics@markit.com">economics@markit.com</a>.

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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 <a href="https://www.markit.com/economics">www.markit.com/economics</a>

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