

# HSBC Russia Services PMI®

## Output growth in Russia eases in December

### Summary

The Russian service sector registered another solid expansion at the end of 2012 but the pace of growth slowed slightly, according to HSBC PMI® data compiled by Markit. Services activity rose at the weakest rate since September, although new business growth accelerated.

The headline figure for the services 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. Remaining above the 50.0 no-change threshold for the twenty-eighth month in succession in December, the Index eased to 56.1, from 57.1 in November. That indicated a sharp overall expansion, albeit the weakest in three months. In contrast, the equivalent Manufacturing Output Index fell to 50.6, from 54.6, signalling the weakest increase in goods production since September 2011. The Composite Output Index eased to a four-month low of 54.1.

Growth of services activity was supported by a stronger increase in new business volumes in December. Having slowed the previous month, the pace of expansion nearly matched October's 51-month record. Anecdotal evidence linked new business wins to increased client numbers and competitive pricing. Manufacturing new orders rose at the slowest rate in four months.

The volume of outstanding business fell across both manufacturing and services in December, with the sharper decline seen in the latter.

Service sector employment increased at the fastest rate since May 2011 to meet business requirements. In contrast, manufacturing jobs fell at the strongest rate since August 2009. Consequently, the overall rate of private sector workforce growth was the weakest in four months.

Average input prices increased at a slightly faster rate in December. The rate of inflation was stronger than the average for 2012, but still relatively weak in the context of historic survey data. Upward pressure on cost burdens was linked to higher prices for utilities, fuel and labour. Input costs increased at a faster rate in services than in manufacturing. Private sector firms raised their own charges at the weakest rate in six months.

Around 42% of Russian service providers expect business activity to rise over the course of 2013. Growth expectations were linked to regulatory improvements, favourable market conditions and a global economic recovery. The overall degree of positive sentiment was, however, the weakest in four months.

### Comment

Commenting on the Russia Services PMI® survey, Artem Biryukov, Economist (Russia and CIS) at HSBC, said:

*"Sustaining good growth momentum in October-November, Russian economic expansion slowed down in December, the HSBC Russia Composite PMI survey showed. Indeed, a sharp fall in external demand in manufacturing took its toll on real GDP. Still elevated services sector activity was the only stronghold for economic growth in the end of 2012."*

*"Fasten your seatbelts, and prepare for a soft landing? This is the key takeaway from December HSBC Russia Composite PMI survey. Actually, matching an almost unchanged headline PMI, GDP growth remained flat at 2.2-2.3% in October-November, on our estimates. Applying past correlation, the December Composite PMI Index points to GDP growth decelerating below 2% y-o-y in the last month of 2012. This brings 1.9-2.1% y-o-y real GDP in Q4 2012 and overall 3.4-3.5% increase for the whole year. Our 2.5% GDP growth rate forecast for 2013 is justified then."*

### Key points

- Composite Output Index at four-month low of 54.1
- Solid rise in services activity contrasts with marginal increase in goods production
- Services employment growth at 19-month high

### 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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