HSBC Purchasing Managers' Index™ Press Release

Embargoed until: 09:00 (Moscow), 5 February 2013

HSBC Russia Services PMI®

Output growth picks up on stronger manufacturing performance

Summary

Business activity in the Russian private sector continued to grow solidly at the start of 2013, according to HSBC ${\sf PMI}^{\circledcirc}$ data compiled by Markit. The rate of expansion accelerated slightly, reflecting a stronger gain in manufacturing output.

Remaining above the 50.0 no-change threshold for the twenty-ninth month in succession in January, the seasonally adjusted HSBC Russia Services Business Activity Index signalled a further increase in services output. The Index eased for the third month running, however, to 55.7, signalling the weakest rate of expansion since last September. Manufacturing output rose at a stronger rate than in December, resulting in a slightly faster overall rate of expansion across both sectors. The Composite Output Index improved to 54.8.

Growth of services activity was supported by a further sharp increase in new business in January. The pace of growth was slightly weaker than in December, but broadly in line with the long-run survey average. A number of firms reported winning new clients. Manufacturing new orders rose at the strongest rate since March 2011.

Service sector employment in Russia rose in January, extending the current sequence of job creation to 27 months. In contrast, manufacturing staffing levels contracted for the third month running.

Cost pressures in the Russian service sector moderated at the start of 2013. The rate of input price inflation was the weakest since last June, and remained below the long-run survey average. Input cost inflation eased in all areas except Post & Telecommunication, which also registered the greatest overall rate. Firms across the services sector reported higher utility and fuel costs. Meanwhile, manufacturers' input prices rose at only a moderate rate.

In line with the trend for input prices, the rate of inflation of prices charged for services eased to a seven-month low. Similarly, factory gate prices rose at the weakest rate in five months.

Around 42% of service providers anticipate higher levels of business activity in 12 months' time, linked to linked to planned company development projects, improving market conditions and new customers. That said, the overall degree of positive sentiment remained weak in the context of historic data, and was the lowest since last August.

Comment

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

"The Russian economy grew somewhat faster in January, the HSBC Russia Composite PMI survey revealed. Importantly, it follows from the survey's results that economic growth In January was stronger than the average growth in both 2011 and 2012. Translating Composite PMI Index values into GDP growth numbers using past correlation, we see clear signs of faster GDP growth over the recent months. Recent values of Composite PMI Index are consistent with GDP growth of about 4%, we estimate.

"The PMI data show that growth engines rebalanced in January: manufacturing has rebounded while the service sector moderated its output growth that nevertheless remained robust. This rebalancing is healthy, we think, as it puts the economy on a more stable growth track. That said, some further moderation of business activity expansion in the service sector is quite likely in the coming months due to the expected slowdown of consumption demand growth.

"Against such a backdrop, calls for more expansionary fiscal and/or monetary policies look ill-placed, in our opinion. Let the economy finish its growth engines rebalancing while helping it with structural rather than pro-cyclical macroeconomic policies."

Key points

- Services Business Activity Index falls to four-month low of 55.7
- Composite Output Index rises to 54.8
- Manufacturing new order growth at 22-month high

Historical Overview

HSBC Russia Composite Output Index







For further information, please contact:

HSBC in Russia

Julia Molchanova
Telephone + 7 495 721 1515
Email julia.molchanova@hsbc.com

Markit

Trevor Balchin, Senior Economist
Telephone +44-1491-461-065
Email trevor.balchin@markit.com

Caroline Lumley, Corporate Communications
Telephone +44-20-7260-2047
Mobile +44-7815-812-162
Email caroline.lumley@markit.com

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.

HSBC:

HSBC is one of the world's largest banking and financial services organisations. With around 6,900 offices in both established and faster-growing markets, we aim to be where the growth is, connecting customers to opportunities, enabling businesses to thrive and economies to prosper, and ultimately helping people to fulfil their hopes and realise their ambitions.

We serve around 60 million customers through our four global businesses: Retail Banking and Wealth Management, Commercial Banking, Global Banking and Markets, and Global Private Banking. Our network covers 84 countries and territories in six geographical regions: Europe, Hong Kong, Rest of Asia-Pacific, Middle East and North Africa, North America and Latin America. Our aim is to be acknowledged as the world's leading international bank.

Listed on the London, Hong Kong, New York, Paris and Bermuda stock exchanges, shares in HSBC Holdings plc are held by over 221,000 shareholders in 134 countries and territories.

About Markit:

Markit is a leading, global financial information services company with over 2,800 employees. The company provides independent data, valuations and trade processing across all asset classes in order to enhance transparency, reduce risk and improve operational efficiency. Its client base includes the most significant institutional participants in the financial market place. For more information please see www.markit.com

About PMIs:

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

The intellectual property rights to the HSBC Russia Services and Composite *PMI*® provided herein is owned by Markit Economics Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. *Purchasing Managers' Index™* and *PMI*® are trade marks of Markit Economics Limited, HSBC use the above marks under license. Markit and the Markit logo are registered trade marks of Markit Group Limited.

The HSBC Group, HSBC means HSBC Holdings plc, the company established in accordance with and regulated by the laws of England and Wales, and/or HSBC Bank plc, the Bank established in accordance with and regulated by the laws of England and Wales, and every company that is a member of the group, controlled by this Bank.

OOO HSBC Bank (RR) («Bank», «HSBC in Russia»). General license issued by the Bank of Russia 3290. 2 Paveletskaya Square, Building 2, Moscow 115054 Russia.