

HSBC Russia Services PMI®

Service sector expansion remains robust in February

Key points

- Services Business Activity Index little-changed from January at 56.1
- Composite Output Index posts 54.9
- Employment growth in services offsets manufacturing job cuts

Summary

Growth of the Russian service sector was maintained at a robust pace in February, according to HSBC PMI® data compiled by Markit.

Remaining above the 50.0 no-change threshold in February, the seasonally adjusted HSBC Russia Services Business Activity Index signalled a further increase in services output. Having fallen during the prior three months, the Index improved slightly to 56.1, from 55.7, a figure higher than the average for 2012 (54.7) and broadly in line with the long-run average for the survey (56.4). The current sequence of expansion in services business activity now stretches to two-and-a-half years.

Manufacturing output rose at a slower rate than services activity in February. Across both sectors the rate of expansion remained solid, as signalled by the Composite Output Index posting 54.9, from 54.8 in January.

Continuing the trend shown since September 2010, the volume of incoming new business received by Russian service providers increased in February. The rate of expansion eased slightly to a three-month low, but was nevertheless stronger than the average over the current sequence. A number of firms reported winning new customers and launching new products during the month. New order growth in manufacturing also remained strong.

Job creation in the Russian service sector was maintained in February, albeit at a modest rate little-changed from January's five-month low. Manufacturers shed staff for the fourth month running, albeit only marginally. Overall employment rose slightly, having been unchanged in January.

The rate of input price inflation in the Russian service sector remained weak in the context of historic survey data. Where input prices rose, this was mainly linked to higher costs for energy, fuel and salaries. Meanwhile, manufacturing input price inflation eased to the slowest since June 2012.

The 12-month outlook for activity in the Russian service sector remained strong in February, but moderated to the weakest since last August and remained below the survey's long-run trend.

Comment

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

"The February HSBC Russia Composite PMI survey confirmed that the Russian economy keeps expanding at a moderate pace being driven by robust domestic demand. This conclusion comes at a sharp contrast with a recent flow of alarming official macroeconomic data on industry, fixed investment and retail sales. In essence, it looks like there are two economies in Russia: the one that the PMI surveys capture and the other that official statistics report on.

"Such a paradox of the two economies needs reconciliation. We think that, first, various base effects have been predominantly negative since 3Q 2012, which are still weighing on official headline numbers, while PMI data are not exposed to these effects. Unfortunately, negative base effects related to fewer work and/or calendar days will continue negatively affecting annual growth numbers in both 1Q and 2Q 2013, we foresee. Therefore, the 'two economies' may continue to co-exist for a while.

"Second, it does not matter for PMI indicators whether output or new orders growth at a particular firm is strong or weak. Therefore, if growth rates among different sectors and companies converge - because fast growing sectors/companies moderate their growth - PMI indicators do not change, other things being equal, while aggregate sector statistics would point to a weaker output growth. We believe this is the Russian case; moderation of output growth from double digits to single digits in car industry and the construction materials sector are good examples in this respect. Eventually, if current pace of PMI values continues official data will stabilize too showing moderate growth in the economy.

"Overall, business expectations in services have continued lowering in February confirming our view that uncertain outlook weighs on business activity restraining output growth that nevertheless remains robust. Destocking is a flip side of less optimistic business expectations. This process subdues economic growth at present, but economic growth could get a push if business expectations improve."

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.

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