HSBC Purchasing Managers' Index™ Press Release

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compiled by markit

HSBC Russia Services PMI®

Service sector expansion loses momentum in March

Key points

- Services Business Activity Index falls to six-month low of 54.6
- Composite Output Index falls to seven-month low of 53.4
- Weakest business expectations in services since July 2012

Summary

Growth of the Russian service sector eased at the end of the first quarter, according to HSBC PMI® data compiled by Markit. Slower increases in total business and new workloads were registered, while the 12-month outlook for activity was the weakest since July 2012. This was accompanied by a softer improvement in manufacturing output.

Remaining above the 50.0 no-change threshold in March, the seasonally adjusted HSBC Russia Services Business Activity Index signalled a further increase in services output. Having edged up in February, the Index resumed its downward trend in the latest period, falling for the fourth time in five months to 54.6. That was the lowest since last September and below the historic average of 56.4. The equivalent Manufacturing Output Index also fell on the month, posting a three-month low of 51.3. The Composite Output Index subsequently declined to a seven-month low of 53.4.

New business receipts at Russian service providers increased for the thirty-first successive month in March, albeit at the weakest rate since last November. Manufacturing new order growth was the slowest since December, partly reflecting a further mild fall in new export business.

Reflecting the relatively modest strength of new business growth and resulting spare capacity in the sector, the volume of outstanding business held at Russian service providers continued to decline in March. The rate of contraction slowed since February, but remained faster than the long-run survey average. Meanwhile, manufacturing backlogs fell for the first time in three months.

Job creation in the Russian service sector was maintained for the twenty-ninth month running in March. The rate of employment growth in the latest period was the fastest since December, and in contrast to a fifth successive month of job shedding at goods producers.

Average input prices paid by service providers rose at the fastest rate in three months in March. Anecdotal evidence linked inflationary pressure to higher prices for fuel and energy. Input price inflation in the manufacturing sector remained relatively subdued.

Service sector companies in Russia were confident regarding the 12-month outlook for business activity in March. That said, the degree of sentiment moderated to the weakest since July 2012.

Comment

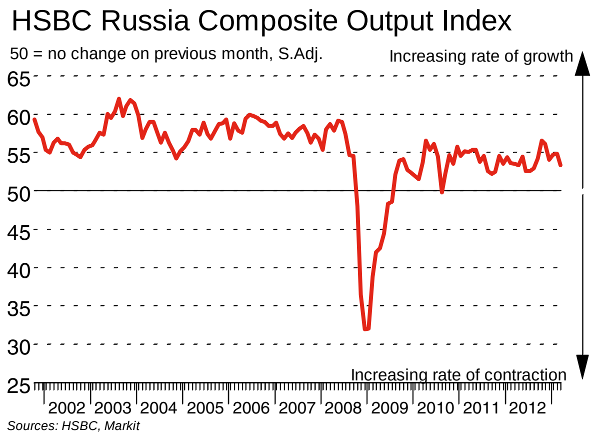
Commenting on the Russia Services PMI® survey, Alexander Morozov, Chief Economist (Russia and CIS) at HSBC, said:

"The March HSBC Russia Services & Composite PMI survey revealed two major findings. First, both services and manufacturing slowed down their expansion in March. Second, in spite of the slowdown, growth rates of output, new business and employment were equal to the average growth rates of these indicators recorded last year. So, what we observe so far is a return to 'normal' growth rates.

"What shall we expect next? Business expectations can give some clue. In March business expectations of service providers continued becoming less optimistic. Last time business expectations were so subdued was in July 2012, on the back of the political crisis in Greece and its possible repercussions for the rest of the world. Probably, the recent crisis in Cyprus will further weigh on the expectations of Russian businesses next month. If so, the April PMI release might reveal some further weakening in economic growth momentum in Russia. However, the last year's story also tells us that a successful crisis resolution in Cyprus could significantly improve business expectations and accelerate economic growth in Russia, similar to what happened in the second half 2012. Otherwise, non-optimistic prophecies of Russian business captains might become self-fulfilling.

"Quite surprisingly, the March PMI revealed some intensification of cost and inflationary pressures in the Russian economy, with some respondents referring to indexation of their output prices in line with general inflation. Output prices growth remains below its recent benign trend, but we see some evidence that the Central Bank's concerns about high headline inflation giving rise to higher inflationary expectations might be justified."

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.

HSBC:

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We serve around 58 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 81 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 about 220,000 shareholders in 129 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