

HSBC Russia Services PMI®

Private sector growth slows to 19-month low in April

Summary

Growth of the Russian service sector weakened further at the start of the second quarter, according to HSBC PMI® data compiled by Markit. This, combined with only a modest rise in goods production, led to the slowest overall expansion of private sector activity since September 2011.

Remaining above the 50.0 no-change threshold in April, the seasonally adjusted HSBC Russia Services Business Activity Index signalled a further increase in services output. That said, the Index declined further, from 54.6 to 53.0, indicating the slowest expansion since last August. The Composite Output Index also fell, to 52.4 – the lowest since September 2011.

Continuing the trend shown since September 2010, the volume of incoming new business received by Russian service providers rose in April. The rate of growth was, however, little-changed from March's four-month low, and remained weak in the context of historic data. Manufacturing new order growth slowed for the third month running, as new export business at goods producers posted a further marginal decline.

The Russian service sector added jobs in April, as has been the case every month for the past two-and-a-half years. Moreover, the rate of employment growth strengthened further and was the fastest registered in 2013 to date. In contrast, the manufacturing workforce contracted for the sixth month in succession, the longest spell of job shedding in over three years.

Survey data indicated another sharp rise in average input prices paid by service sector companies, linked to utilities, fuel and growing tax burdens. That said, the overall rate of input cost inflation remained below the long-run series average. Input price inflation in services remained stronger than the trend shown for manufacturing.

Service providers raised their charges at the fastest rate in seven months, albeit one that remained historically weak. In contrast, factory gate prices fell for the second time in three months.

The 12-month outlook for activity in the service sector remained positive in April. Moreover, the strength of business sentiment improved slightly, having previously weakened for six straight months. Over three times as many companies predict growth as those that expect a decline.

Comment

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

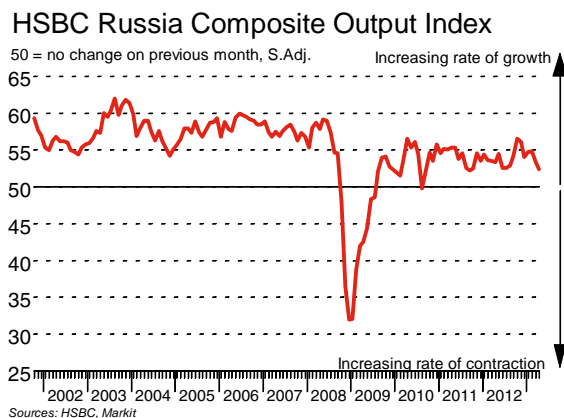
"The Russian economy eased its growth in April, the HSBC Russian Services & Composite PMI showed. Combined output in the service and manufacturing sectors has expanded at the slowest rate for one and half years. Yet, importantly, new orders growth rate remained virtually flat matching its trend line. So, similarly to their behaviour in the preceding months, producers of goods and services did not hurry to meet the steady growing demand with output increases. Instead, they preferred to cut backlogs of work more profoundly still expecting negative surprises from future demand growth. That said, the registered improvement in business expectations together with fast rise in employment in services looks encouraging. This may prompt a faster output growth in the coming months, which would be required for catching up with the current pace of demand growth.

"In sum, the observed moderation of economic growth in Russia in April appears still being driven by subdued business expectations and worries about future demand growth while current demand growth remains robust. Exporters of non-consumer goods that face further demand contraction remain the only exception."

Key points

- Composite Output Index at 19-month low of 52.4
- Services Business Activity Index falls to 53.0
- Outlook in service sector improves for first time since September 2012

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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