

HSBC Russia Services PMI®

Extra holidays hit Russian private sector growth in May

Summary

The latest HSBC PMI® data compiled by Markit indicated that Russian service sector growth slowed further in May, although an unusually high number of public holidays weighed on business conditions during the month. This, combined with only a marginal rise in manufacturing production, resulted in the weakest overall gain in output since growth resumed in September 2010.

The HSBC Russia Services Business Activity Index remained above the no-change mark of 50.0 for the thirty-third consecutive month in May, but declined from 53.0 to 51.4, the lowest level over this sequence and indicative of a weak rate of growth. Anecdotal evidence suggested that the longer-than-usual May holiday period had impacted negatively on workloads. The equivalent Manufacturing Output Index declined to 50.4, the lowest in the current growth sequence stretching back to August 2009. As a result, the Composite Output Index fell to 51.0, a 33-month low.

The overall volume of new business rose in May, continuing the trend shown since March 2010. The rate of expansion eased, however, to the weakest since August 2012, reflecting slower gains in both manufacturing and services.

In contrast to the slowing rate of activity growth, employment in the service sector rose at a faster pace in May. Data signalled the strongest rate of job creation in 2013 so far, and the second-fastest in two years. A number of firms linked recruitment to improving underlying demand and business developments. In contrast, manufacturers shed staff for the seventh month running, but this failed to prevent overall employment rising at the fastest rate in six months.

The long-term outlook for business activity in the services sector improved in May, to the highest since the start of the year. Firms tied positive sentiment to expectations of winning new clients and launching new services, as well as a recovery in the global economy. The strength of sentiment remained weaker than the long-run survey average, however.

Inflationary pressures in the Russian private sector economy remained subdued in May. Average input prices increased at the weakest rate since June 2009. Input price inflation eased to a 31-month low in services, but accelerated to a five-month high in manufacturing. Where cost pressures rose, this was linked to higher prices for energy, fuel, utilities, labour and rent. Meanwhile, output price inflation across the Russian private sector was unchanged from April's rate, remaining historically weak.

Comment

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

"Both the service sector and manufacturing has slowed down its business activity expansion to the lowest rate in this business cycle, the May HSBC Services & Composite PMI surveys revealed. Nevertheless, output kept growing in both sectors. These results point to a very weak growth momentum in the Russian economy. However, they should be interpreted with a good degree of caution, we think. Extra few public holiday days that Russia had in May this year appeared to be a very powerful negative factor weighing on output growth economy-wide. In this respect, a faster employment growth in services and less intense staff shedding in manufacturing in May is an important signal of the underlying growth trend in the economy remaining positive. Further improvement of business expectations in services in May also points to the likely stabilization of business expansion growth in May once we take away the one-off 'holiday' effect.

"While long holiday period in May levied a heavy toll on most businesses, there were some that benefited from increased people's leisure spending. Hotels & Restaurants and Transport & Storage sectors reported strong growth of business activity in May, in sharp contrast with output decline seen in most other service sectors.

"Judged by the results of HSBC PMI surveys in May, annual dynamics of the Russian economy has slowed down sharply. This is what we expect to see in official numbers once Rosstat's statistical data for May are published later in June. We have to keep in mind though that these numbers will be downward biased due to the negative 'holiday' effect. Yet, weak May data will give a good excuse for cutting key policy rates in July, we think, provided that inflation drops below 7% by that time."

Key points

- Composite Output Index falls to 33-month low of 51.0.
- Services Business Activity Index falls for third month running to 51.4
- Input price inflation at 47-month low

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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