HSBC Purchasing Managers' Index[™] Press Release

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HSBC Russia Services PMI®

Russian private sector stalls in June as services activity declines

Summary

HSBC PMI[®] data compiled by Markit indicated that Russian service sector activity declined in June, the first contraction signalled by the survey since a heatwave disrupted businesses in August 2010. This led to an overall stagnation in private sector output, despite the fastest increase in manufacturing production in four months. Meanwhile, service providers became less optimistic regarding the 12-month outlook, with the overall degree of positive sentiment the weakest since the start of 2009.

The headline figure for the services survey is the seasonally adjusted HSBC Russia Services Business Activity Index. The Index fell for the seventh time in eight months in June, to 48.8, from 51.4 in May, signalling a modest contraction in Russian service sector output and ending 33-month sequence of Manufacturing output rose at the fastest rate since February while total output across both sectors was littlechanged from May, as signalled by the Composite Output Index falling to 50.1.

The volume of new business received by Russian service providers also contracted in June for the first time since August 2010. In contrast, manufacturing new order growth reached a four-month high.

The forward-looking indicator from the services survey deteriorated sharply in June. The 12-month outlook for activity was the weakest in four-and-a-half years. Moreover, since the survey began in October 2001, expectations have been weaker only in the immediate aftermath of the global financial crisis in late-2008.

June's halt in service sector new business growth resulted in a sharper fall in outstanding work at service providers. The rate of contraction was the joint-fastest during the first half of the year, and stronger than the long-run survey average. Manufacturing backlogs also declined in June.

The main positive finding from the services survey was a further rise in employment. Job creation in the sector has been sustained every month since November 2011. That said, the rate of growth in June was the slowest since August 2012. Manufacturing headcounts meanwhile rose fractionally following seven months of job shedding.

Input price inflation across both sectors accelerated to a six-month high in June. Sources of higher input prices as reported by panellists included salaries, fuel costs and exchange rates. Meanwhile, prices charged by Russian private sector companies also rose at the strongest rate in six months.

Comment

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

"In sharp contrast with manufacturing, business activity in services surprised with a contraction in June, the HSBC Russia Services PMI survey revealed. New business in services contracted as well, pointing to an unexpected decline in demand. On top of that, business expectations in the service sector fell sharply to a new post-crisis low. Structurally, a significant output decline in Renting & Business Activities sector led the overall bleak service sector performance in June. At the same time, Hotels & Restaurants and Transport & Storage sectors reported ongoing growth in business activity. The Composite Output index in June was just a notch above the level that is consistent with stagnation. above the level that is consistent with stagnation.

"So, what is going on in the Russian economy? How come that manufacturers report a rebound in business activity growth while the service sector appears to be contracting? Let us remember that manufacturing (and industry, in general) is the lead sector in the economy. Growth in manufacturing had been losing momentum until June, while the service sector had been relatively resilient until recently. We think that service providers have just responded to the past weakness in manufacturing, with this weakness filtered through long production chains onto the service sector. Following this logic, service providers should see stronger demand and output growth down the road if manufacturing keeps growing like in June.

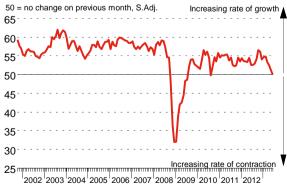
"Besides, June's global financial market sell-offs negatively affected commodity prices, yields and currencies across the globe, including Russia, giving a rise to devaluation fears. This should have weakened both consumer sentiment and business sentiment in services in Russia, weighing on the service sector's performance. Thus, stabilization on global financial markets would help to restore services growth in Russia, we believe. After all, underlying consumer demand in Russia remains upbeat, boosted by robust growth in real wages."

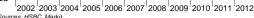
Key points

- Composite Output Index signals stagnation at 50.1
- Services Business Activity Index registers 48.8, indicating decline
- Outlook in services sector weakest in four-and-ahalf years

Historical Overview

HSBC Russia Composite Output Index









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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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