

HSBC Russia Services PMI®

Modest increase in Russian private sector output in August

Summary

Russian service sector activity posted a modest increase in August, according to HSBC PMI® survey data compiled by Markit. The expansion was the first registered in three months, and accompanied a marginal increase in manufacturing production. But growth remained historically weak in both sectors and the level of outstanding business across the private sector declined sharply, resulting in a further slight fall in employment.

The seasonally adjusted HSBC Russia Services Business Activity Index rose back above the no-change mark of 50.0 in August, having spent the previous two months in negative territory. The latest figure of 51.8, up from 48.7, indicated only a modest expansion in activity, however, and was well below the 12-year historic survey average of 56.2. The Manufacturing Output Index rose to 50.5 while the Composite Output index registered 51.4, up from July's 48.7 and signalling mild growth.

The volume of incoming new business received by Russian service providers increased in August, but the rate of expansion was little-changed from July's marginal pace. Where new business increased, this was primarily linked to new clients. Manufacturing new orders rose modestly following a stagnation in July.

Highlighting relatively subdued demand conditions in the service sector, service providers cut outstanding workloads at a marked pace in August. Manufacturers also registered a sharp drop in backlogs.

Russian service sector employment rose in August, having declined marginally the previous month. The rate of job creation was the strongest since May, but historically weak. Manufacturers cut workforces at the sharpest rate in four years, however, resulting in a marginal decline across the private sector as a whole.

Inflationary pressure on Russian service sector companies' costs picked up in August, reaching the highest in 2013 so far. Firms linked increased input costs to utilities, fuel, energy, salaries and exchange rates. However, the rate of input price inflation remained weak in the context of historic survey data. Input price inflation in manufacturing hit a ten-month high, but also remained historically weak. Meanwhile, pricing power remained weak in both sectors.

The 12-month outlook for business activity in the Russian service sector strengthened in August. Around 44% of survey respondents forecast growth of activity at their business units over the next year, linked to company developments, new products, new branches and an economic upturn. That said, the degree of positive sentiment remained below the long-run survey average.

Comment

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

"The Russian service sector surprised positively this time with a resumption of growth, the August HSBC Russian Services & Composite PMI survey found. Thus, the two-month long sequence of business activity contraction in services has been broken and services joined manufacturing in output recovery. Unfortunately, there are not reasons for much optimism. The resurrections in growth are subdued in both sectors, substantially lagging behind the one seen last year, which itself was rather modest. Besides, service providers reported very weak growth of new business that carries a risk of slower economic activity growth going forward. If we annualize current growth of the Russian economy, we will arrive at something about 1 per cent or below. Better crops in agriculture this year, a sector that the PMI surveys do not capture, may add just a few decimal points to the annualized GDP growth, on our estimates.

"In this respect, we are glad to note that the Russian economy has successfully overcome the slack of June-July. Yet, we do not expect renewed growth to get much stronger momentum from here. The recent oil price rally can help only marginally in boosting growth, we think. Indeed, it is the recent surge in geopolitical risks on the back of events in Egypt and Syria that drove oil prices higher, rather than a sustainable improvement in oil market fundamentals that remain pretty weak. Thus, 2% GDP growth remains our baseline scenario for the next year."

Key points

- Composite Output Index improves to 51.4, signalling modest growth
- Services Business Activity Index rises to 51.8
- Private sector employment declines marginally

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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