HSBC Purchasing Managers' Index™ Press Release

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compiled by markit

HSBC Russia Services PMI®

Russian growth improves to seven-month high, but still modest

Summary

Russian service sector growth remained lacklustre in October despite improving since September, according to HSBC PMI® survey data compiled by Markit. Activity rose at the fastest rate since April, but growth remained historically weak and the 12-month outlook was the lowest registered since December 2008. Manufacturing output posted the fastest increase for a year, but the overall expansion in private sector output remained subdued despite reaching a seven-month high.

The seasonally adjusted HSBC Russia Services Business Activity Index signalled growth of activity for the third month running in October, following declines in June and July. The Index improved to a six-month high of 52.5, from 51.5, but remained well below its long-run average of 56.2. The Composite Output Index rose to 53.3, the highest since March but still below the long-run trend of 55.1.

Overall growth of services activity was supported by a rise in the level of incoming new business. In line with the trend for output, the rate of expansion in new contracts was the fastest since April, but historically weak. Manufacturing new orders rose at the strongest rate since February.

The faster rise in incoming new business led to slower declines in outstanding work in both sectors, with the overall rate of backlog depletion easing to a five-month low.

Service sector employment in Russia declined for the third time in four months in October, reflecting the recent weak trend in workloads. That said, the rate of job shedding eased since September, and was only marginal. Manufacturers shed staff for the fourth month running, but at the slowest pace over that sequence.

The 12-month outlook for activity held by service providers in October was weaker than in any survey period other than the final three months of 2008. Only around 30% of firms expect activity growth over the coming year.

Average input prices paid by Russian service providers rose at the fastest rate since September 2012. In contrast, manufacturing input price inflation slowed to a five-month low.

Prices charged for services in Russia rose only modestly in October, and at a rate that remained historically weak. Meanwhile, factory gate prices increased at the slowest rate since May.

Comment

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

"The Russian economy started 4Q on a positive note, the October HSBC Russia Services & Composite PMI survey says. Indeed, service providers joined manufacturers in increasing output on stronger new business inflows. This reduces risks of stagnation. However, growth is not spectacular and probably decelerated in annual terms in October due to a negative base effect. Structurally, the service sector reported mixed results. Two out of six sectors – post & telecommunication and transport & storage – have underperformed seeing declines in new demand. In contrast, hotels & restaurants reported the strongest activity growth, which suggests that household consumption has improved, driving the overall service sector's performance.

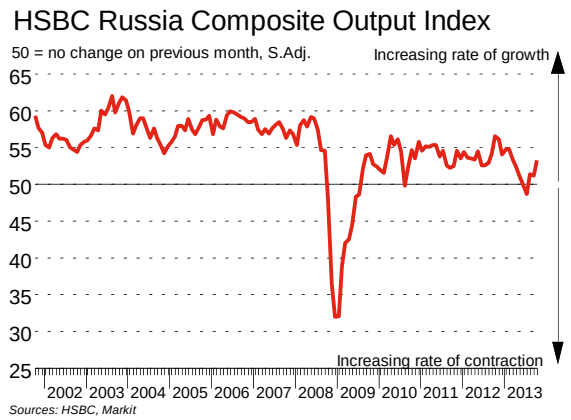
"Service providers trimmed their business expectations further to a new post-crisis low, which suggests only moderate business expansion is foreseen down the road. Thus, similar to manufacturers, they continued to reduce staffing as an integral part of measures aimed at improving cost efficiency of business in the low growth environment. Despite stronger growth momentum, price pressures remained well contained. The recent intensification of input cost inflation has failed to pass through to output prices as companies focus more and more on cost saving.

"All in all, the Russian economy surprised positively in October, yet further improvement in economic growth appears unlikely."

Key points

- Composite Output Index rises to 53.3
- Services activity growth picks up but remains subdued
- Services providers report weakest outlook since December 2008

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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About Markit:
Markit is a leading, global financial information services company with over 3,000 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