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HSBC Russia Services PMI®

Russian services growth picks up in January

Key findings:

- Activity growth strengthens to six-month high
- New business increases at fastest pace since April 2010
- Input price inflation softens to 15-month low

The Russian service sector started 2012 on a bright note as growth of business activity accelerated to a six-month high, according to HSBC PMI data compiled by Markit. Forward-looking indicators also improved, as new business growth strengthened while sentiment rebounded from December's slump. Input price inflation was at its weakest level since October 2010, while service providers were able to increase their charges at a slightly faster rate.

The headline figure for the survey is the seasonally adjusted HSBC Business Activity Index, a single-figure measure designed to track changes in total Russian services activity compared with one month previously. Readings above 50.0 signal growth of activity compared with the previous month, and below 50.0 contraction.

After adjusting for seasonal variation, the HSBC Business Activity Index posted 56.5 in January, up from 53.8 in December. That signalled the strongest rate of growth since last July, and extended the current expansionary sequence to 17 months. Moreover, the Index was broadly in line with its long-run average during the month (56.6).

New business growth at Russian service providers accelerated in January. The rate of expansion was the second-fastest in the post-crisis period, almost matching April 2010's peak. New business has risen every month since September 2010. Growth was also broadly in line with the long-run survey average.

Although the rate of expansion in new work picked up in January,

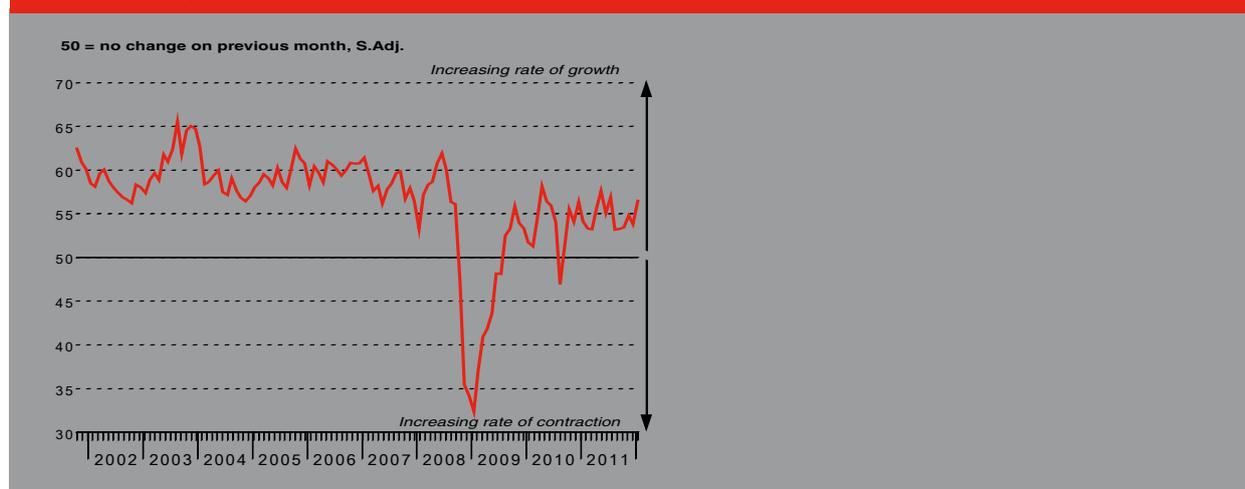
it failed to reach the pace seen prior to the financial crisis and, as such, the level of outstanding business continued to fall. Backlogs at service providers have declined every month since December 2010, and the rate of depletion in the latest period was the fastest in three months. All six sub-sectors covered registered lower outstanding business, suggesting spare capacity across the services economy.

The current strength of business conditions in the Russian service sector was nonetheless sufficient to generate growth of employment. The current sequence of job creation now stretches to 15 months, and the rate of expansion accelerated to the fastest since May 2011. Rising headcounts were registered in all areas except for Transport & Storage.

Price pressures in the Russian service sector remained subdued in January. The rate of input price inflation eased to a fifteen-month low, and remained much weaker than the long-run survey average. Output price inflation also remained relatively weak, despite accelerating slightly since December.

Forward-looking business expectations data recovered in January. Having been the weakest in three years in December, the degree of positive sentiment strengthened sharply in the latest period, as around 42% of firms expect higher activity in 12 months' time. That was still less than half of all respondents, however, compared with 54% citing positive sentiment, on average, over the survey history.

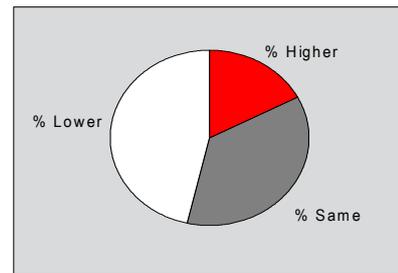
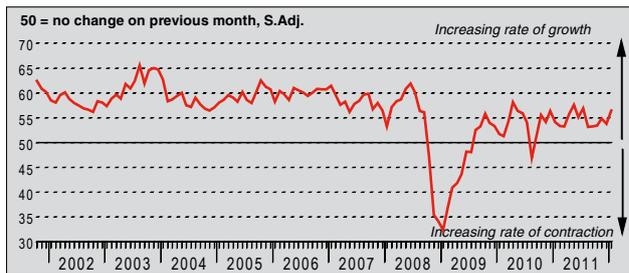
Business Activity Index



The survey uses a methodology identical to the HSBC Russia Manufacturing PMI®. The survey uses a panel of regularly participating companies to monitor trends in business conditions in the private sector services economy. The panel has been carefully selected to accurately replicate the true structure of the Russian services economy. Questionnaires are dispatched at mid-month, requesting comparisons of the current situation with that of one month previously. Purchasing Managers' Index™ and PMI® are trade marks of Markit Economics Limited, HSBC use the above marks under licence. Markit and the Markit logo are registered trade marks of Markit Group Limited.

Business Activity Index

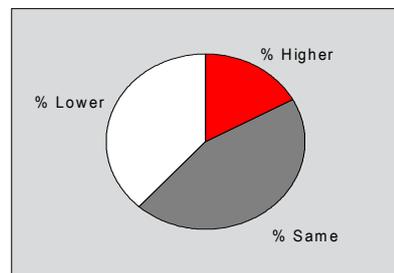
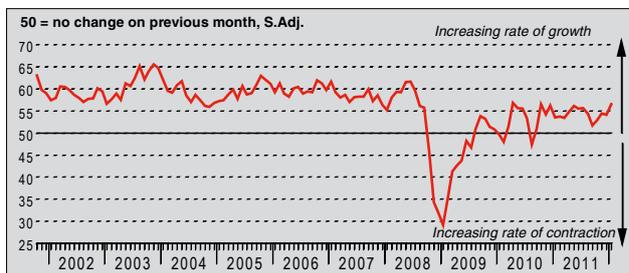
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



Survey data indicated a sharper increase in service sector activity in Russia at the start of 2012. Having weakened at the end of last year, the rate of expansion strengthened to the fastest since last July. The seasonally adjusted Business Activity Index was broadly in line with its long-run average of 56.6 during the latest period. Four sub-sectors registered growth, led by Financial Intermediation and Post & Telecommunication. Conversely, falling activity was signalled in Hotels & Restaurants and Transport & Storage.

New Business Index

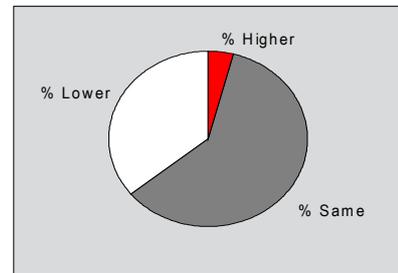
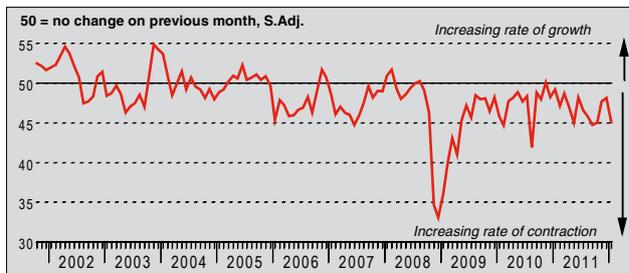
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



The seasonally adjusted New Business Index improved on the month in January, signalling the fastest rate of expansion since April 2010. The Index was also the second-highest since the financial crisis of 2008-2009. Intakes of new work at Russian service providers have risen every month since September 2010. Some respondents linked new business wins to improving underlying demand. By sector, new business growth was strongest in Post & Telecommunication, followed by Financial Intermediation. A flat trend was signalled in Transport & Storage.

Outstanding Business Index

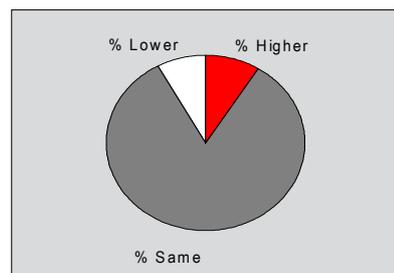
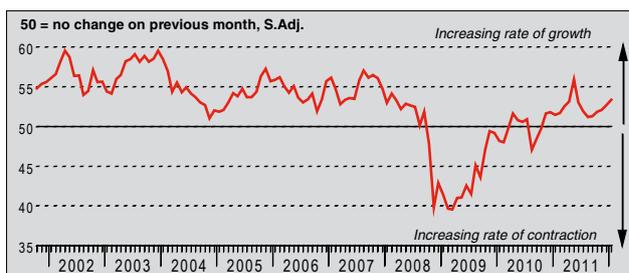
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



Although new contracts increased at a faster pace during the month, outstanding business continued to decline. That suggested ongoing spare capacity in the Russian service sector. Moreover, the seasonally adjusted Outstanding Business Index fell sharply, signalling the fastest rate of decline since last October. Backlogs declined across all six sub-sectors covered, with the steepest rate of contraction seen in Post & Telecommunication.

Employment Index

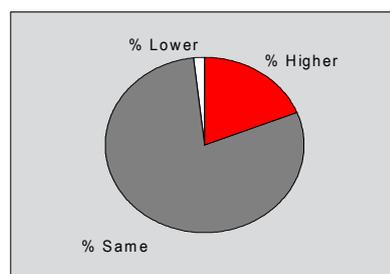
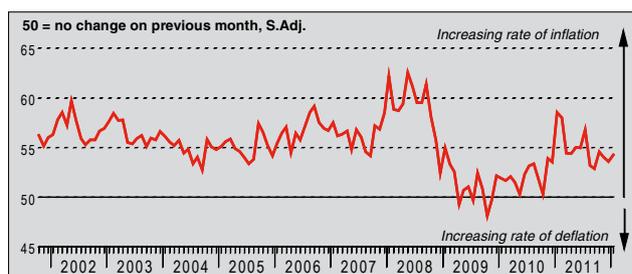
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



Net job creation at Russian service providers was signalled for the fifteenth successive month in January. Reflective of faster growth of both total and incoming new business, the rate of employment growth accelerated. This was indicated by the seasonally adjusted Employment Index improving to an eight-month high. Job creation was also slightly stronger than the long-run survey average in the latest period. Workforces increased in all sub-sectors except for Transport & Storage.

Prices Charged Index

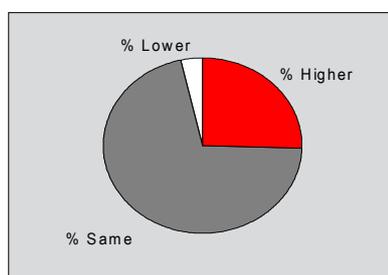
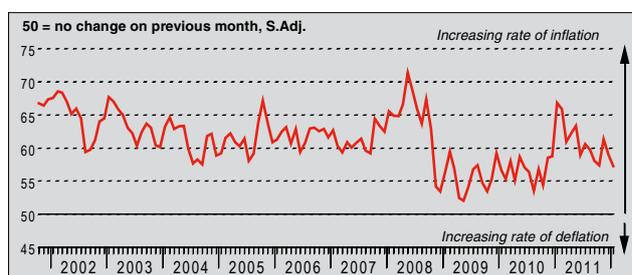
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



The rate of inflation of prices charged by Russian service providers accelerated slightly in January to a three-month high. Survey respondents generally linked higher tariffs to rising costs. That said, the seasonally adjusted Prices Charged Index remained weaker than its historic average of 55.4 during the month. Charges rose in all sub-sectors except Post & Telecommunication. The strongest rate of inflation was registered in Transport & Storage.

Input Prices Index

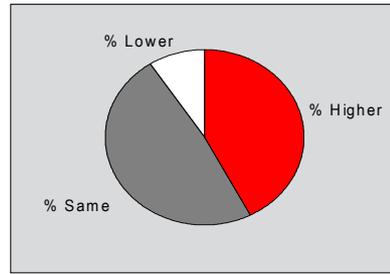
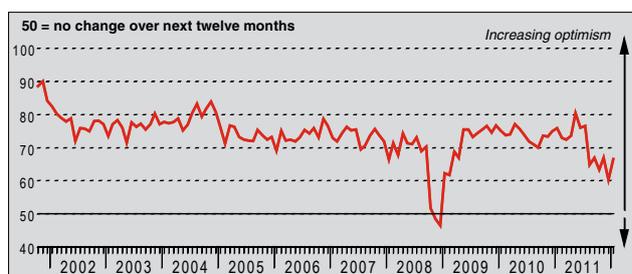
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



Cost pressures at Russian service providers eased for the second month in succession in January. The seasonally adjusted Input Prices Index fell to its lowest level since October 2010, and remained well below its long-run average of 61.3. Where average input prices rose compared with one month previously, firms reported higher utility bills and rents. Input price inflation was strongest in Post & Telecommunication and Transport & Storage.

Business Expectations Index

Q. In twelve months' time, do you expect overall activity at your business unit to be higher, the same or lower than now?



Having slumped in December, business confidence in the Russian service sector rebounded in January. The Business Expectations Index almost recovered the ground lost in the final month of 2011, as 42% of firms expect activity at their business units to rise over the course of 2012. Optimism for growth centred on the development of their markets, the expansion and modernisation of services and rising incomes in the wider economy. Negative anecdotal evidence included potential political instability.

Notes on the Data and Method of Presentation

The Russia Services *PMI* covers transport & communication, financial intermediation, business services, personal services, computing & IT and hotels & restaurants.

Each response received is weighted each month according to the size of the company to which the questionnaire refers and the contribution to total service sector output accounted for by the sub-sector to which that company belongs. This therefore ensures that replies from larger companies have a greater impact on the final index numbers than replies from small companies.

The results are presented by question asked, showing the percentage of respondents reporting an improvement, deterioration or no change on the previous month. From these percentages an index is derived such that a level of 50.0 signals no change on the previous month. Above 50.0 signals an increase (or improvement), below 50.0 a decrease (or deterioration). The greater the divergence from 50.0, the greater the rate of change signalled.

The indexes are calculated by assigning weights to the percentages: the percentage of respondents reporting an "improvement/increase" are given a weight of 1.0, the percentage reporting "no change" are given a weight of 0.5 and the percentage reporting a "deterioration/decrease" are given a weight of 0.0. Thus, if 100% of the survey panel report an "increase", the index would read 100. If 100% reported "no change" the index would read 50 (100 x 0.5), and so on. 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.

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