

Embargoed until: 09:00 (MOSCOW), 5 March 2012

## HSBC Russia Services PMI®

### Russian services growth remains solid in February

#### Key findings:

- Activity growth eases slightly from January's six-month high
- Input price inflation at 16-month low
- Business expectations improve slightly

The Russian service sector continued its positive start to 2012 in February, despite a slight loss of momentum, according to HSBC PMI data compiled by Markit. Growth rates for total activity and new business remained solid, albeit slightly weaker than in January. Inflationary pressures remained subdued, while firms' expectations regarding the next 12 months improved further.

The headline figure for the survey is the seasonally adjusted HSBC Russia Services 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.

The HSBC Business Activity Index remained above the no-change threshold for the eighteenth month in succession in February, signalling ongoing expansion of services output in Russia. The Index slipped from January's six-month high of 56.5, to 55.3, and was below its long-run trend level of 56.6. It was nonetheless the second-highest figure in the past seven months, and indicative of a solid if unspectacular rate of growth.

Higher new business intakes supported growth of total activity mid-way through the first quarter. Mirroring the trend for total output, new workloads increased for the eighteenth month running, albeit at a softer rate than at the start of the year. New business rose across all six sub-sectors, led by Post & Telecommunications.

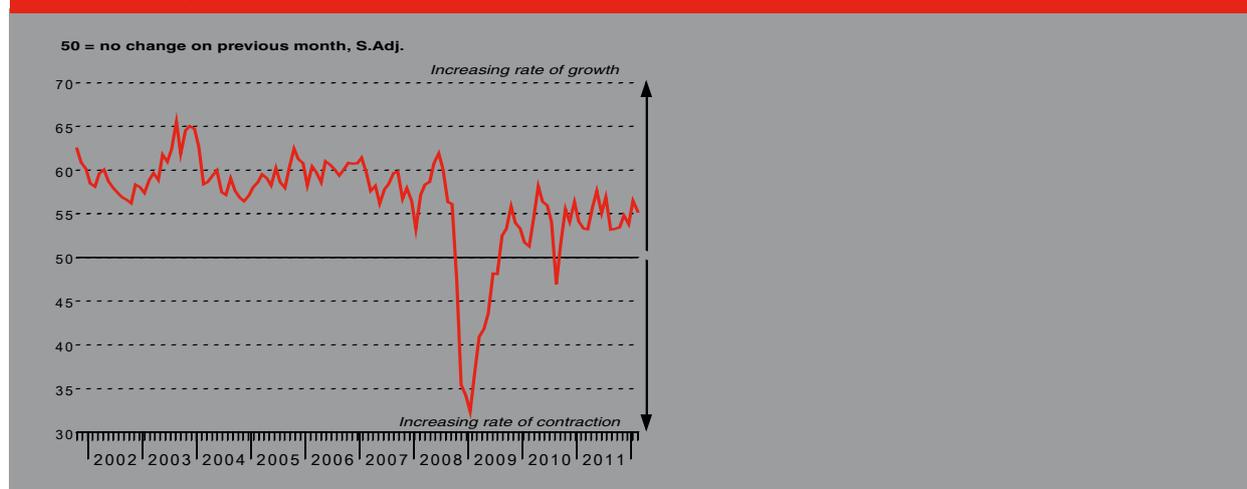
Outstanding business at Russian service providers continued to decline in the latest period, reflective of relatively modest new business growth in comparison with the survey's long-run trend. The current sequence of declining backlogs at service providers now stretches to 15 months, and the rate of contraction remained robust despite easing since January.

The rate of job creation in Russia's private sector services economy remained solid in February, little-changed from January's eight-month high. Moreover, the rate of workforce growth was slightly stronger than the survey's long-run average, as all sub-sectors except for Transport & Storage registered expansion.

Inflationary pressures remained muted in February. Input cost inflation eased to a 16-month low, and was below the survey's historic trend level. Where costs did rise, this was linked mainly to salaries, rents, utilities and fuel. Charges levied by service providers rose at a solid pace, albeit one that was also weak in the context of historic survey data.

Just under half of all survey respondents (47%) expect that activity at their units will be higher in 12 months' time. That remained less than the long-run survey average (54%), but the overall degree of positive sentiment improved for the second month running to the highest since last July. Firms expect to boost product ranges and widen their customer bases over the coming months.

#### Business Activity Index

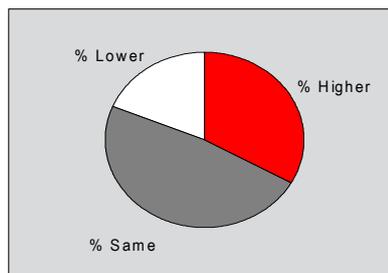
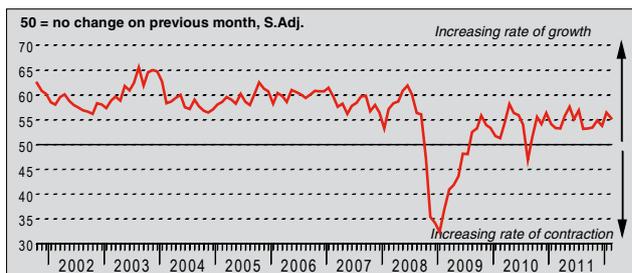


The survey uses a methodology identical to the HSBC Russia Manufacturing PMI®. The survey uses a panel of regularly participating companies to monitor trends in business conditions in the private sector services economy. The panel has been carefully selected to accurately replicate the true structure 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

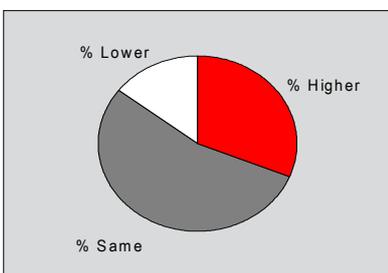
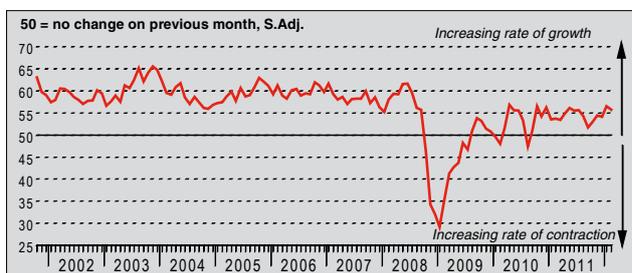
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



Service sector output in Russia rose for the eighteenth month running in February. The rate of growth eased slightly from January and was below the survey's long-run average, but was still the second-fastest of the past seven months. Anecdotal evidence linked higher activity to market growth and some cited increased business linked to the upcoming elections. By sector, activity expanded sharply in Post & Telecommunications, Other Services and Financial Intermediation. Activity continued to decline in Hotels & Restaurants.

### New Business Index

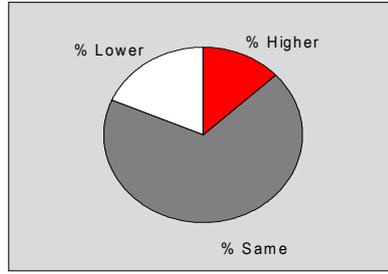
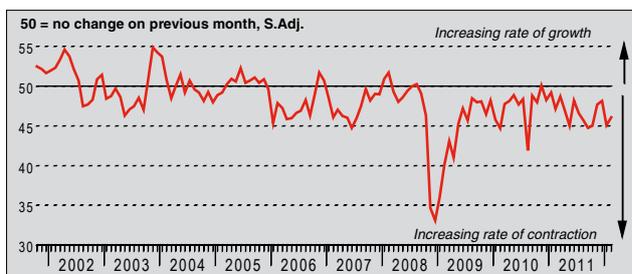
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



The seasonally adjusted New Business Index remained above the no-change mark of 50.0 that separates growth from contraction in February. The current sequence of continuous expansion now stretches to 18 months, and the rate of growth remained solid despite weakening slightly since the start of the year. Some firms linked new business wins to marketing activity. By detailed sector, Post & Telecommunications remained the strongest-growing, and Transport & Storage the weakest.

### Outstanding Business Index

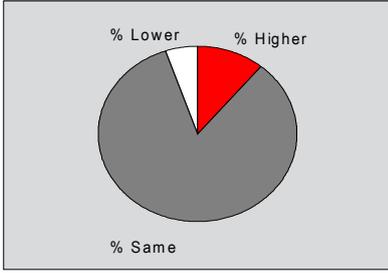
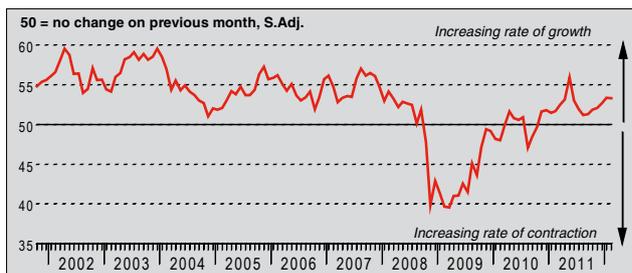
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



Outstanding business in the Russian services economy continued to decline in February. The seasonally adjusted Outstanding Business Index remained below neutrality for the fifteenth consecutive month, and the latest reading signalled a solid rate of contraction. Around 19% of survey respondents reported lower levels of work-in-hand than one month earlier. Backlogs fell in all six sub-sectors, in a sign of spare capacity across the services economy.

### Employment Index

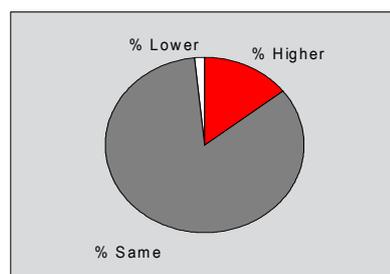
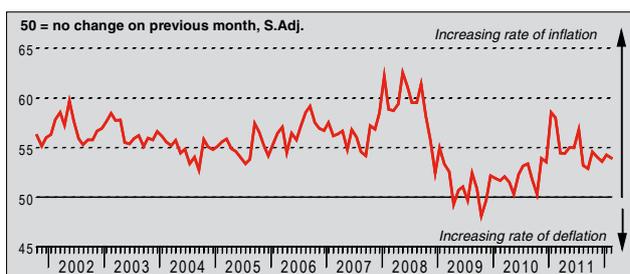
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



Service sector employment in Russia rose for the sixteenth month running in February. The seasonally adjusted Employment Index was little-changed from January's eight-month high, signalling a robust rate of job creation. Firms linked recruitment of additional staff to new business, filling vacancies and investment in marketing. The Index was slightly above its long-run trend level of 52.9 for the second month running. Workforces expanded in five out of six sub-sectors, the exception being Transport & Storage.

## Prices Charged Index

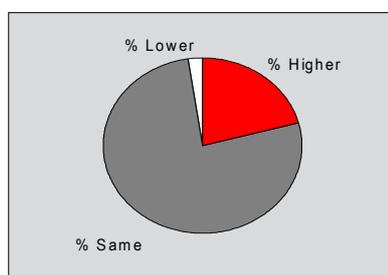
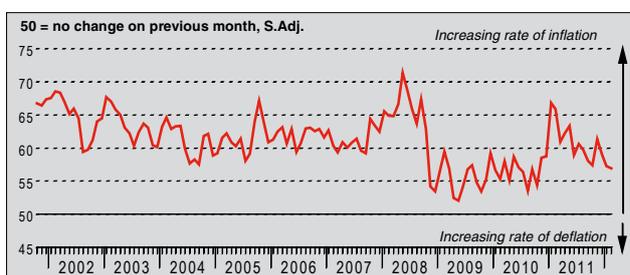
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Prices charged by Russian service providers continued to rise in February, as they have every month since December 2009. The seasonally adjusted Prices Charged Index was little-changed from January's three-month high, and signalled a robust rate of service sector charge inflation. That said, the Index was still below its long-run average of 55.4. The strongest rate of output price inflation was signalled in Transport & Storage, while tariffs in the Hotels & Restaurants sector were broadly unchanged from January.

## Input Prices Index

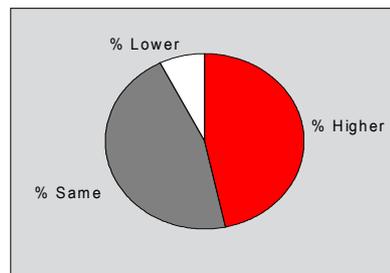
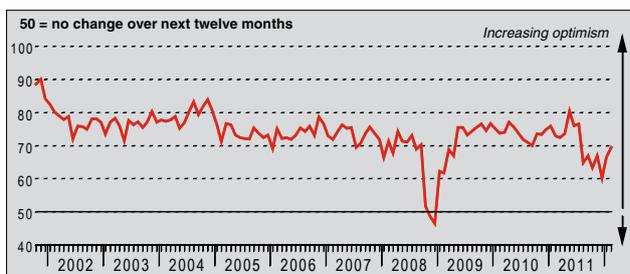
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



Upward pressure on Russian service providers' input prices was maintained in February. However, the seasonally adjusted Input Prices Index eased for the third month running to its lowest since October 2010, and was well below its historic average of 61.3. Where input costs rose from one month previously, the main factors reported by panellists included salaries, fuel, utilities, rents and travel expenses. The strongest rates of input price inflation remained in Post & Telecommunications 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?



Russian service providers' expectations regarding business activity at their units in 12 months' time improved in February. The Business Expectations Index rose further from last December's three-year low, to its highest in seven months. Nearly half of all survey respondents expect growth of activity, linked to economic growth in Russia, expanded product ranges, wider geographical markets and marketing initiatives. That said, the degree of positive sentiment remained weak compared with the survey's long-run average.

## 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.

## Warning

The intellectual property rights to the HSBC Russia Services *PMI* provided herein is owned by Markit Economics Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. *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.