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HSBC Russia Services PMI®

Russian services growth eases for second month running in March

Key findings:

- Activity growth weakest in 2012 so far
- New business expansion remains robust
- Business expectations continue to edge up

The Russian service sector continued to expand in March, but lost further momentum since the start of the year, according to HSBC PMI data compiled by Markit. Activity growth was the weakest in three months, but new business growth remained strong and expectations continued to improve gradually. Moreover, the rate of employment growth was solid. Inflationary pressures in the service sector remained weak compared with the long-run trend shown by the survey.

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 Russia Services Business Activity Index remained above the no-change threshold for the nineteenth month in succession in March, signalling sustained expansion of services output in Russia. That said, the Index eased further from January's six-month high, was below its long-run trend level of 56.6. The latest figure of 54.4 was down slightly from 55.3 in February, and broadly in line with the average registered for 2011 overall.

New business expansion supported growth of total activity. Moreover, the rate of expansion was strong, and only slightly behind the survey's long-run average. On a quarterly basis,

new business rose on average in Q1 at the fastest rate since the third quarter of 2008.

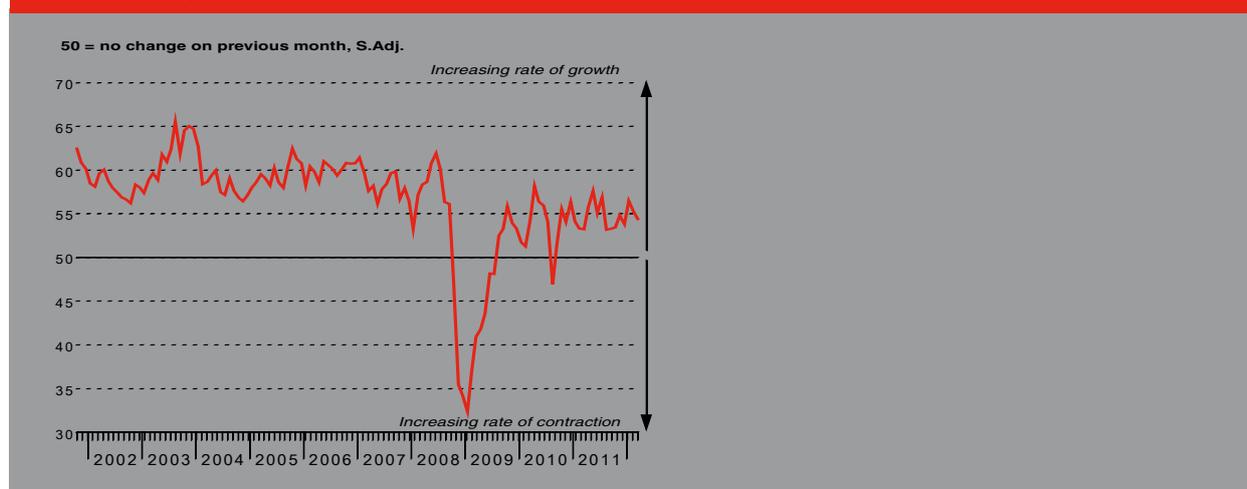
The robust rise in new business was not sufficient to place substantial pressure on Russian service sector capacity, however. The volume of outstanding business continued to fall in March, extending the current sequence of depletion to 16 months. That said, the rate of contraction eased to the slowest in 2012 so far in March.

Russian service providers expanded their workforces on average in March. The current sequence of job creation in the sector now stretches to 17 months. The rate of employment growth was solid, and broadly in line with the long-run survey average.

The longer-term outlook continued to brighten in March, albeit gradually. Expectations regarding activity over the coming 12 months remained positive, and the degree of sentiment was the strongest since July 2011. That said, it remained weaker than the survey's historic trend.

The rate of input price inflation edged up in March, but was still weak in the context of historic survey data. The main source of rising costs were labour and rents. A similar trend was evident for prices charged by Russian service providers. The rate at which firms increased their own prices during 2012 so far has been weaker than both the average for 2011, and that seen throughout the ten-and-a-half-year survey history.

Business Activity Index

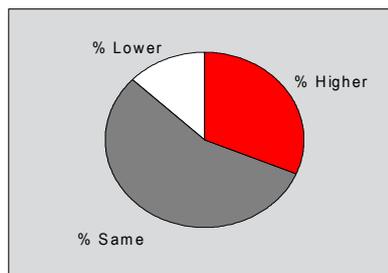
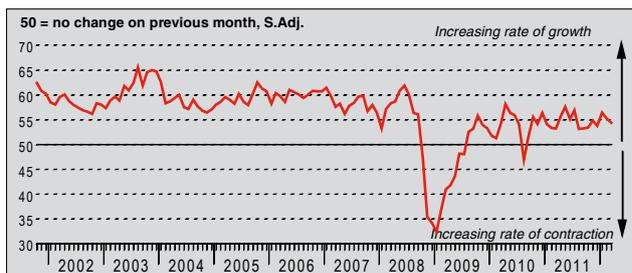


The survey uses a methodology identical to the HSBC Russia Manufacturing PMI®. The survey uses a panel of regularly participating companies to monitor trends in business conditions in the private sector services economy. The panel has been carefully selected to accurately replicate the true structure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

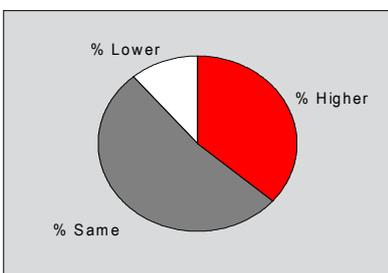
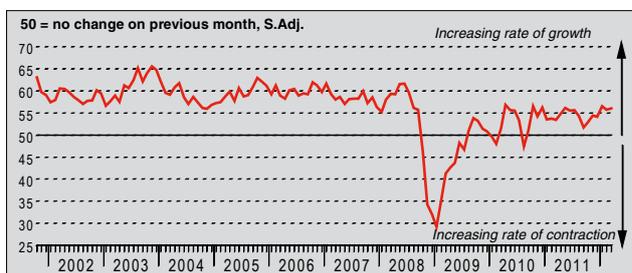
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



Russian services activity grew in March compared with the previous month. This extended the current sequence of expansion to 19 months. Some firms linked growth to winning new work as a result of marketing campaigns. That said, the seasonally adjusted Business Activity Index eased further from January's six-month high, signalling the slowest increase in the year-to-date. Activity growth remained weak in the context of historic survey data. Expansion was broad-based across all six sub-sectors covered by the survey.

New Business Index

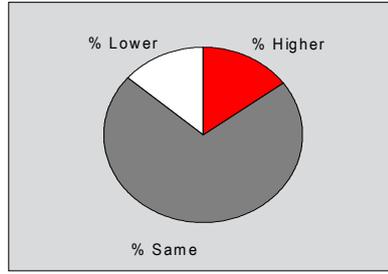
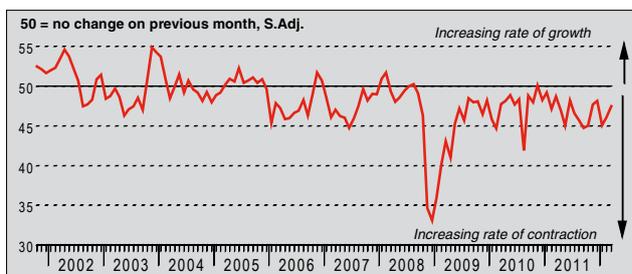
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



Incoming new work at Russian service providers rose at a strong rate in March. The seasonally adjusted New Business Index edged up from February, signalling the second-fastest expansion of the past ten months. The Index was also only slightly below its long-run average of 56.5 during the latest period. Continuous growth of new business has been maintained for 19 months, but the trend rate of expansion over this sequence has been weaker than the pre-crisis average. New business rose in all sectors except Financial Intermediation, where it was unchanged since February.

Outstanding Business Index

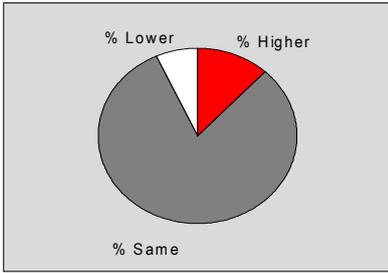
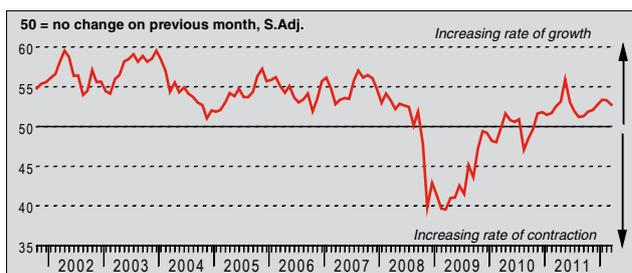
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



The seasonally adjusted Outstanding Business Index remained below the no-change mark of 50.0 in March, signalling lower incomplete workloads at Russian service providers. Backlogs have fallen every month since December 2010, although the rate of depletion in March was the weakest so far in 2012. Declining levels of outstanding business were mostly prevalent in the Post & Telecommunication, Hotels & Restaurants and Financial Intermediation sectors.

Employment Index

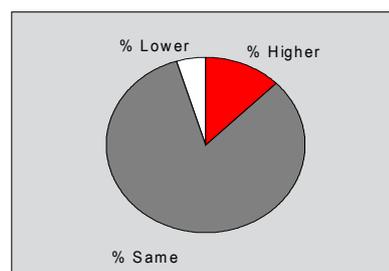
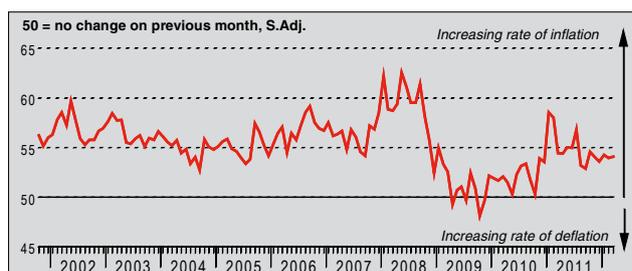
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



Services employment in Russia rose for the seventeenth successive month in March. Where staffing rose, at 12% of companies, firms reported filling new vacancies and also new job opportunities. The overall rate of job creation eased slightly to a three-month low, but remained solid. The seasonally adjusted Employment Index was broadly in line with its long-run average of 52.9 during the latest period. By sub-sector, headcounts rose in all areas except Transport & Storage, where no change was signalled. The strongest recruitment growth was seen in Renting & Business Activities.

Prices Charged Index

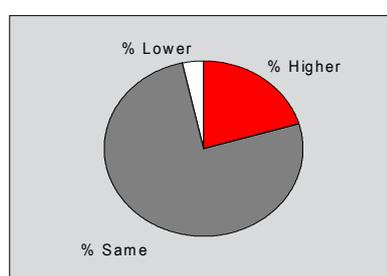
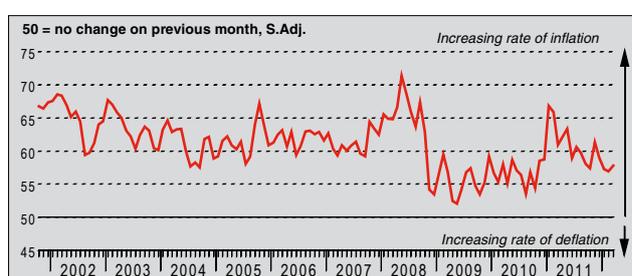
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



The seasonally adjusted Prices Charged Index was little-changed in March, signalling a further solid rise in Russian service providers' tariffs. Higher charges were linked to both cost pressures and the decision by some companies to end discounting practices. That said, the recent trend rate of output price inflation has been weaker than that seen over the survey history. Charges rose in all six sub-sectors, led by Transport & Storage and 'Other Services'. The weakest rise was in Financial Intermediation.

Input Prices Index

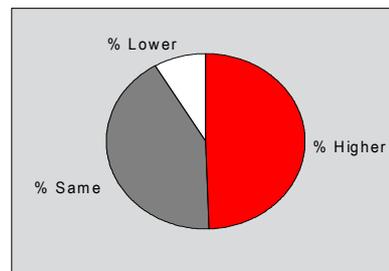
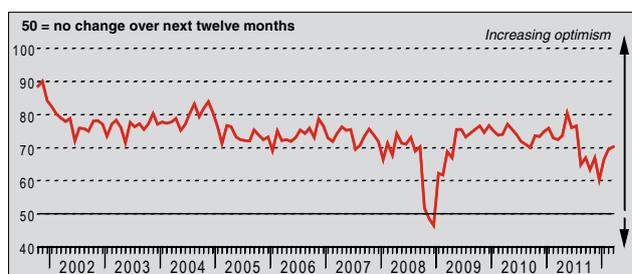
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



Average input prices paid by Russian service providers continued to rise in March. Anecdotal evidence mainly linked cost pressures to labour and rents. The seasonally adjusted Input Prices Index increased from February's 16-month low, signalling a slightly faster rate of inflation. But it remained below its long-run trend level of 61.2. Sub-sector data signalled broad-based input price inflation, led by Transport & Storage and Hotels & Restaurants.

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?



The degree of positive sentiment in Russia's service sector improved further in March, albeit gradually. Firms reported favourable economic forecasts for later in the year, new product development and expected new client wins. Almost half of all survey respondents expect activity to be higher in one year's time than current levels, and the overall degree of confidence was the most upbeat since July 2011. Business expectations were strongest in Transport & Storage and Financial Intermediation.

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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