

HSBC Russia Services PMI®

Russian services growth slows to modest pace

Key findings:

- Activity growth weakest since September 2010
- New business expansion slows to six-month low
- Weakest rise in input prices for 18 months

The Russian service sector lost growth momentum in April, according to HSBC PMI® data compiled by Markit. The rate of growth of total business activity eased for the third month running from January's sharp pace, and was the slowest since September 2010. A slowing trend was also evident for new business flows, while the survey indicated stable pressure on service sector capacity as the volume of outstanding business was broadly constant. Slower growth of workloads led to only a marginal rise in employment in the sector, while input price inflation was the weakest for a year-and-a-half.

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 twentieth month in succession in April, signalling sustained expansion of services output in Russia. That said, the Index moved lower for the third consecutive month, to 52.6. That was the lowest figure since September 2010, and signalled only a moderate increase in business activity since March.

The overall loss of growth momentum in April reflected a slower increase in new business. Survey data signalled the weakest

expansion in six months, and a pace that remained weak in the context of the survey history.

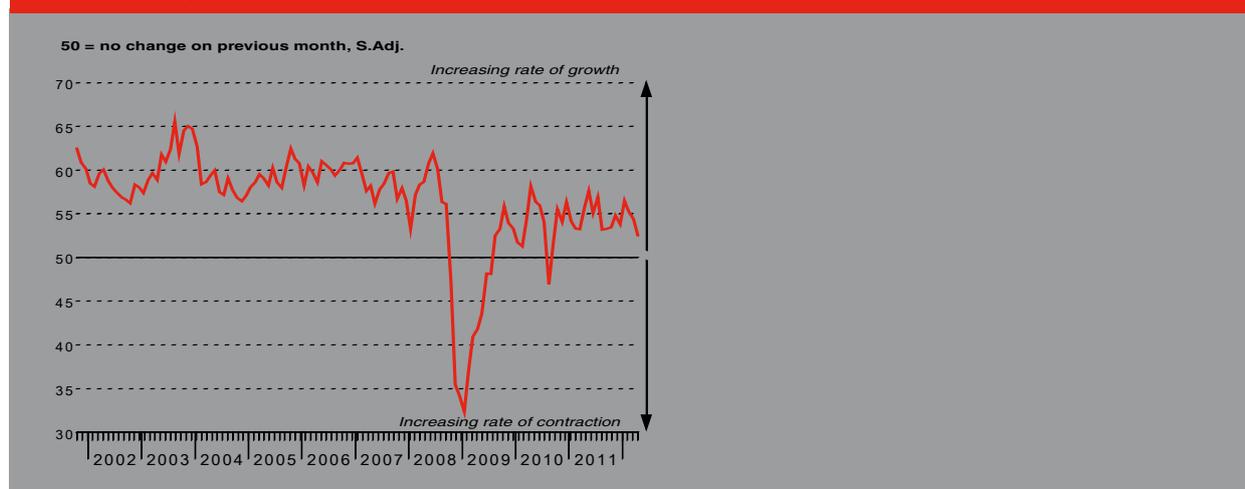
The volume of outstanding business held in Russia's private sector services economy was little-changed from one month earlier. Backlogs of work have rarely risen since the start of 2008, reflecting a general lack of pressure on business capacity.

Services companies in Russia expanded their workforces in April. Employment has risen every month since November 2010. The rate of job creation in the latest period was, however, the weakest over this sequence.

Business expectations regarding activity trends in 12 months' time remained strongly positive in April. The overall degree of sentiment was broadly similar to March's eight-month high, with firms anticipating an improvement in both domestic and international market conditions.

Inflationary pressures remained relatively muted in the latest survey period. Input price inflation moderated on the month, and was the weakest since October 2010. Where costs did rise, this was generally attributed by survey respondents to rising prices for fuel, energy and utilities. In line with the trend seen throughout 2012 so far, input cost inflation was weaker than the long-run survey average. Meanwhile, prices charged for services rose at the fastest rate in six months, albeit one that remained weak in the context of historic survey data.

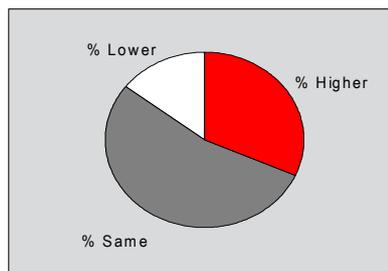
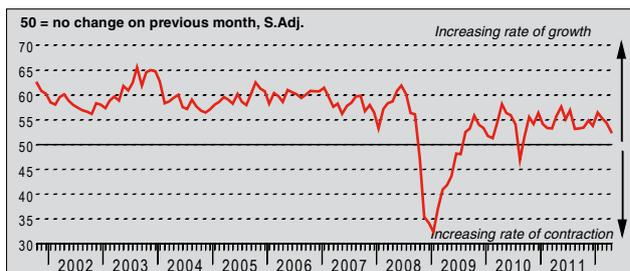
Business Activity Index



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

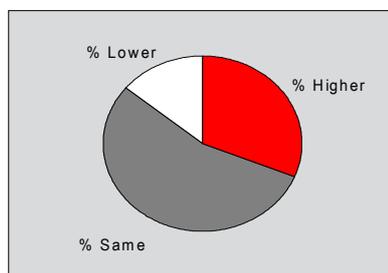
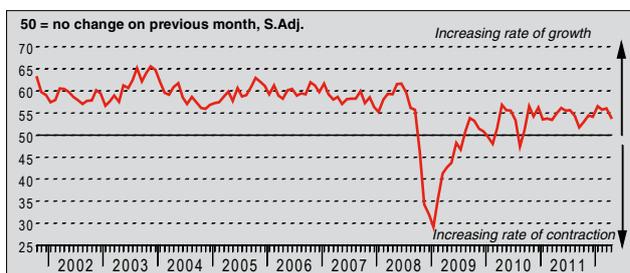
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



The seasonally adjusted Business Activity Index remained above the no-change mark of 50.0 in April. Anecdotal evidence mainly linked higher activity to new contract wins. The current period of expansion now stretches to 20 months. But the rate of growth was the weakest since September 2010, having eased for the past three months. Activity growth weakened across five sub-sectors, the exception being Hotels & Restaurants which also registered the strongest overall expansion.

New Business Index

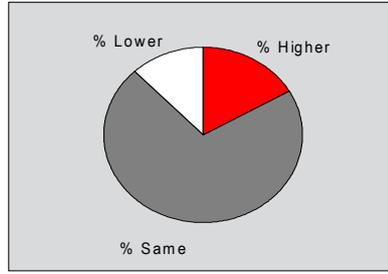
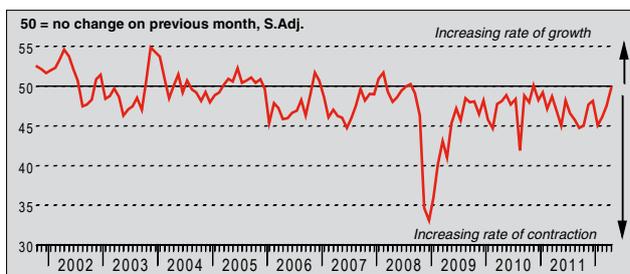
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



The volume of incoming new business to the Russian services sector rose in April, extending the current sequence of expansion to 20 months. A number of panellists reported successful new marketing initiatives during the latest survey period. The rate of growth was solid, but the weakest since last October. The seasonally adjusted New Business Index was also below its long-run trend level of 56.4. By sub-sector, new business growth was strongest in Hotels & Restaurants, while new contracts declined in Post & Telecommunication and Financial Intermediation.

Outstanding Business Index

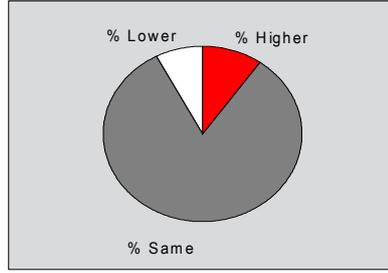
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



April data signalled virtually no change in the volume of outstanding business held at Russian service providers. The seasonally adjusted Outstanding Business Index was close to the neutral threshold of 50.0, and the highest in 17 months. Lower backlogs were either linked to a lack of funds from clients, or efforts to clear projects. Where outstanding business rose, this reflected growth of total workloads. By sub-sector, a rapid decline in outstanding business in Post & Telecommunication was largely offset by higher backlogs in all other areas.

Employment Index

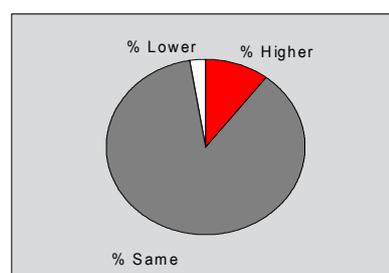
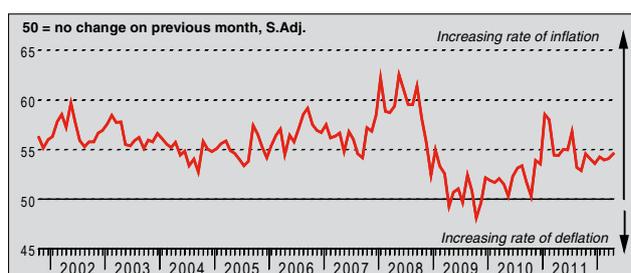
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



Workforce growth among Russian service sector companies eased to a marginal pace in April. Moreover, the seasonally adjusted Employment Index signalled the slowest rate of job creation in the current 18-month sequence of expansion. Around 10% of firms reported hiring additional staff since the previous month, linked to new business wins. By sector, employment rose in Renting & Business Activities, Hotels & Restaurants and Transport & Storage. Flat trends were posted in Financial Intermediation and Other Services, while jobs were cut in Post & Telecommunication.

Prices Charged Index

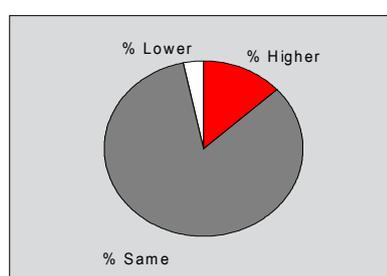
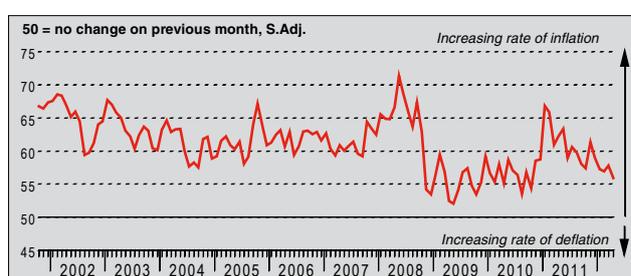
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Russian service providers increased their charges on average in April. The seasonally adjusted Prices Charged Index remained above the no-change mark of 50.0 for the twenty-ninth month in succession, and improved slightly since March to signal the fastest increase in tariffs in six months. Reasons given for higher charges were mainly connected to the rising costs of providing services. That said, the rate of output price inflation remained weaker than the long-run series average. Charges rose fastest in Transport & Storage and Hotels & Restaurants.

Input Prices Index

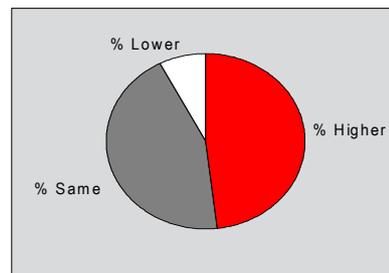
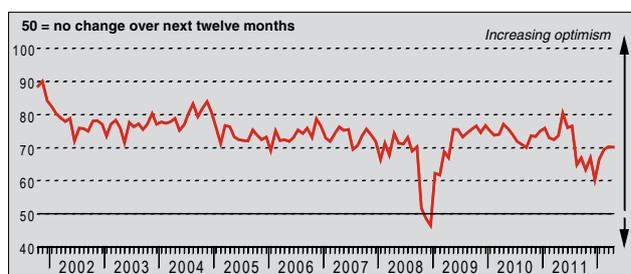
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



Average input prices paid by Russian service sector companies continued to rise in April. Firms specifically mentioned higher fuel, energy and utility prices compared with one month previously. The seasonally adjusted Input Prices Index fell on the month, however, and signalled the weakest rate of input cost inflation for a year-and-a-half. Sector data signalled that cost pressures were strongest in Hotels & Restaurants and Transport & Storage respectively, and weakest in Renting & Business Activities.

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 business sentiment in the Russian service sector was little-changed in April from one month earlier. The Business Expectations Index was broadly constant, having risen throughout the first quarter, and remained below its long-run trend level of 73.9. Around 48% of firms expect activity to rise over the next 12 months, linked to improving domestic economic conditions, company development initiatives and international investors favouring emerging markets.

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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