HSBC *Purchasing Managers' Index*™ 2012

compiled by markit

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HSBC Russia Services PMI®

Russian services growth regains some momentum in May

Key findings:

- Activity growth reaches three-month high
- New business growth solid
- Inflationary pressures remain subdued

The Russian service sector registered an improved performance in May, according to HSBC *PMI*® data compiled by Markit. Total activity, new business and employment all expanded at sharper rates than in April but, over the second quarter so far on average, expansion has been slower than in the first quarter of 2012. Added to this, the forward-looking indicator for business expectations was at its second-lowest level in the year so far. Inflationary pressures remained relatively weak, both for firms' input prices and their charges.

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 twenty-first month in succession in May, signalling a further increase in Russian services output. The Index improved from April's 19-month low of 52.6, to 54.9, indicating the fastest expansion since February. Growth remained weaker than the long-run survey average, however, and the trend for Q2 so far is slower than that registered for the first quarter.

In line with the trend for total activity, the volume of new business received by Russian services providers increased for the twenty-first successive month in May. The rate of expansion was only slightly sharper than April's six-month low, however, and weak in the context of historic survey data.

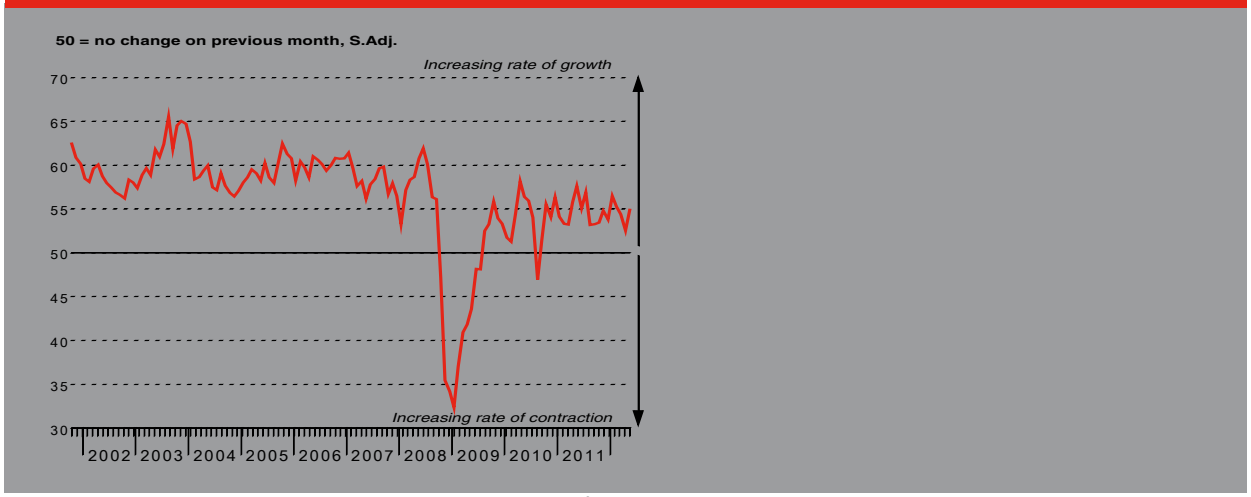
With growth of new contracts remaining below-par, the volume of outstanding business declined in May. The pace of contraction was faster than in April, but slightly slower than the trend for 2012 so far.

Service sector employment in Russia rose in May, continuing the trend since November 2010. The rate of growth was moderate, and only slightly weaker than the long-run average. Job creation was broad-based by sector, and strongest in Transport & Storage.

Inflationary pressures remained weak in the context of the ten-and-a-half-year survey history in May. The rate of input price inflation over the past two months has been the weakest since October 2010. Only 18% of monitored firms reported higher input prices than one month previously, mainly attributed to salaries, fuel and rents. Firms increased their own charges on average, but the rate of inflation was also weaker than the long-run trend.

Service providers' expectations for activity over the next 12 months remained positive in May, but were the weakest since January. Around 46% of the survey panel expect growth, linked to domestic and international economic stability, new products and internal company developments.

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.

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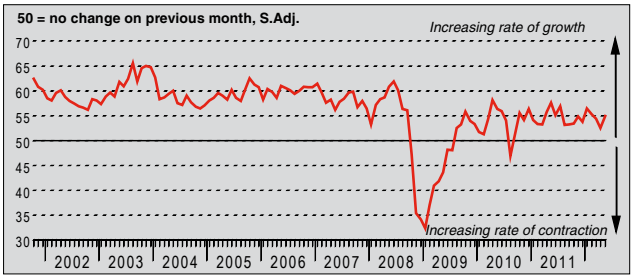
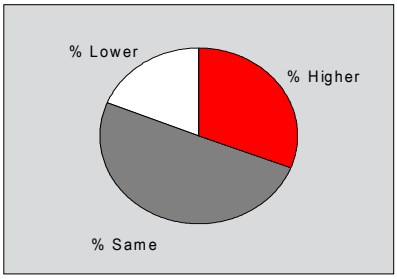
Business Activity Index

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.

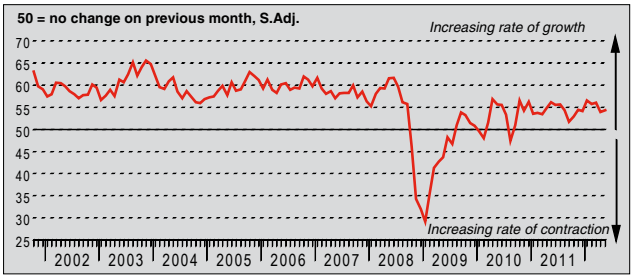


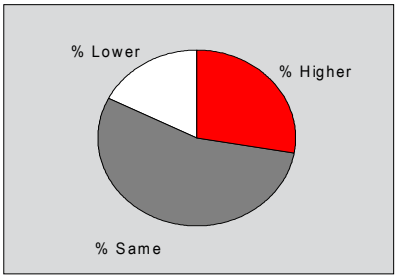


Business activity at Russian service providers rose in May. That extended the current sequence of expansion to 21 months. Firms mainly linked higher activity to rising levels of new business. The seasonally adjusted Business Activity Index improved from April's 19-month low, to the highest since February. That said, it remained weaker than its long-run average of 56.5. Activity rose in five sectors in May, led by Hotels & Restaurants. 'Other Services' posted a broadly flat trend.

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.

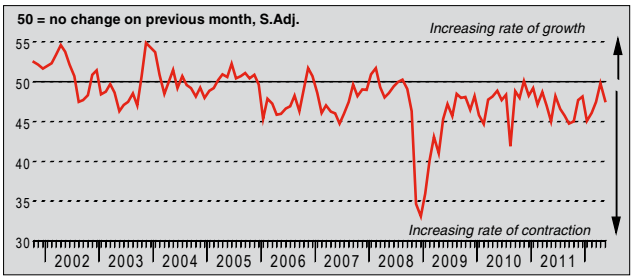


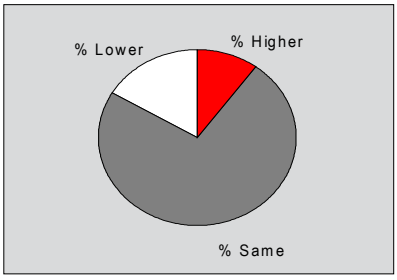


New business in the Russian service sector rose for the twenty-first month in succession in May. The rate of expansion edged up slightly since April, but was the second-weakest of 2012 so far. A number of firms reported winning new customers during the month. In line with the trend for total activity, the rate of growth in new business remained weak in the context of historic survey data. By sector, new business growth was fastest in Hotels & Restaurants, followed by Transport & Storage. New work in Post & Telecommunication declined.

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.

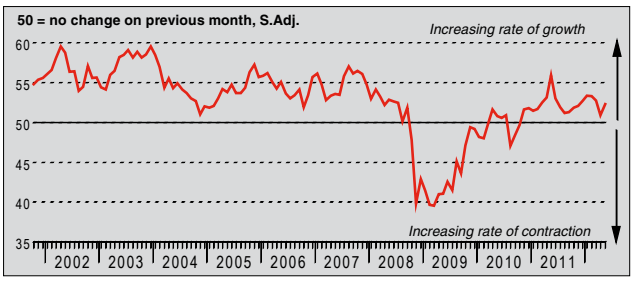


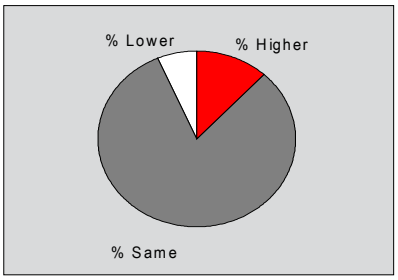


Total activity growth at Russian service providers was supported through the completion of existing contracts in May. The seasonally adjusted Outstanding Business Index remained below the no-change mark of 50.0 for the eighteenth successive month, and fell since April to signal a sharper rate of decline. Some firms reported that they had been able to complete projects having received payment from clients. Falling backlogs were mainly located in the Post & Telecommunication, Renting & Business Activities 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).

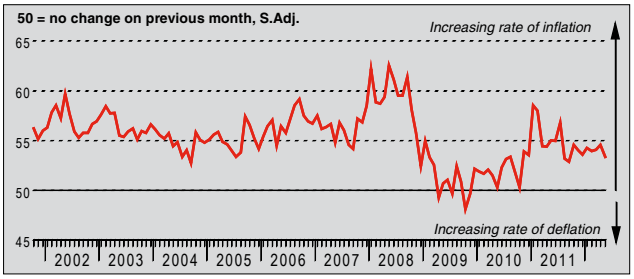


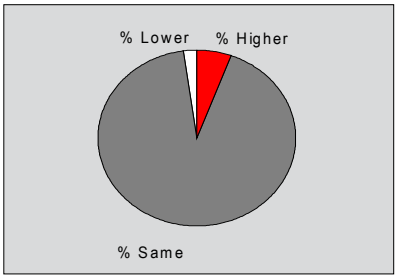


Growth of Russian service sector employment was recorded for the nineteenth consecutive month in May. Firms linked recruitment both to current demand for services and long-term development plans. Having signalled only a marginal rate of job creation in April, the seasonally adjusted Employment Index improved in the current period to signal a moderate pace of expansion. All six sectors registered job creation, with the strongest increase seen in 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.

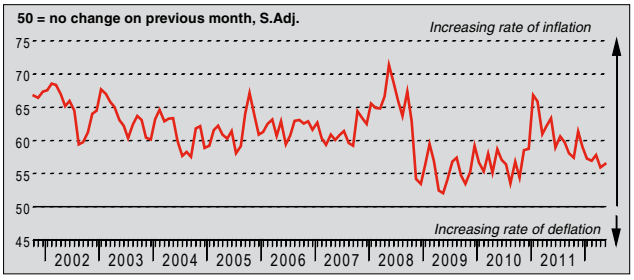


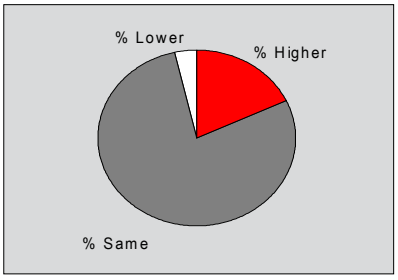


Service sector firms in Russia continued to raise their tariffs in May. The current sequence of output price inflation now extends to two-and-a-half years. The seasonally adjusted Prices Charged Index fell on the month, however, and signalled the weakest rate of inflation since last September. It was also below its long-run average of 55.4. Firms operating in the Hotels & Restaurants sector posted a marked rise in charges in May, contrasting with a fall in Post & Telecommunication.

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.

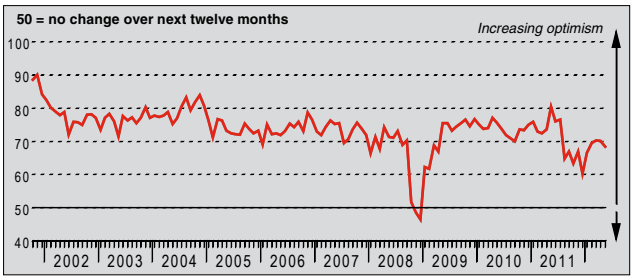


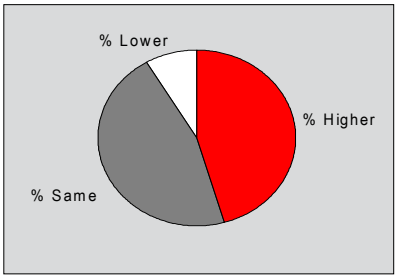


Inflationary pressure on firms' input prices remained subdued in May. The seasonally adjusted Input Prices Index was at its second-lowest level since October 2010, and well below its long-run average of 61.2. Of the 18% of survey respondents who reported greater cost pressures, the main contributing factors were salaries, fuel, rents and other business expenses such as flights and hotels. By sector, cost pressures were steepest in Hotels & Restaurants, followed by 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?





Expectations for business activity remained strongly positive in May, despite a slight moderation in sentiment. The Business Expectations Index remained well above the no-change mark of 50.0, but signalled the weakest degree of optimism since January. It was also below its long-run trend level of 73.8. Anecdotal evidence linked positive expectations to the development of new products and services, organic market growth, domestic stability and a global economic recovery. Expectations were strongest in Hotels & Restaurants, followed by Transport & Storage.

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