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HSBC Russia Services PMI®

Slowest rise in Russian services activity in nearly two years

Key findings:

- Activity growth eases to 22-month low
- New business increases only fractionally
- Expectations weaken sharply

Russian service sector growth continued to weaken at the start of the third quarter, according to HSBC PMI® data compiled by Markit. The rate of growth in total services activity eased to the weakest since September 2010, as new business rose only marginally. Moreover, the longer term outlook also deteriorated sharply, with the overall degree of sentiment the second-weakest in three-and-a-half years. Inflation of both input and output prices strengthened during the month, but remained weak in the context of historic survey data.

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-third month in succession in July, signalling a further increase in Russian services output. But the Index fell from 53.2 to 52.0, indicating the weakest rate of expansion since September 2010. The Index remained well below its long-run average of 56.5.

New business received by Russian service providers rose only fractionally in July, with the pace of expansion the slowest in the current 23-month sequence. Moreover, new business declined in three sectors – Financial Intermediation, Renting & Business

Activities and 'Other Services'.

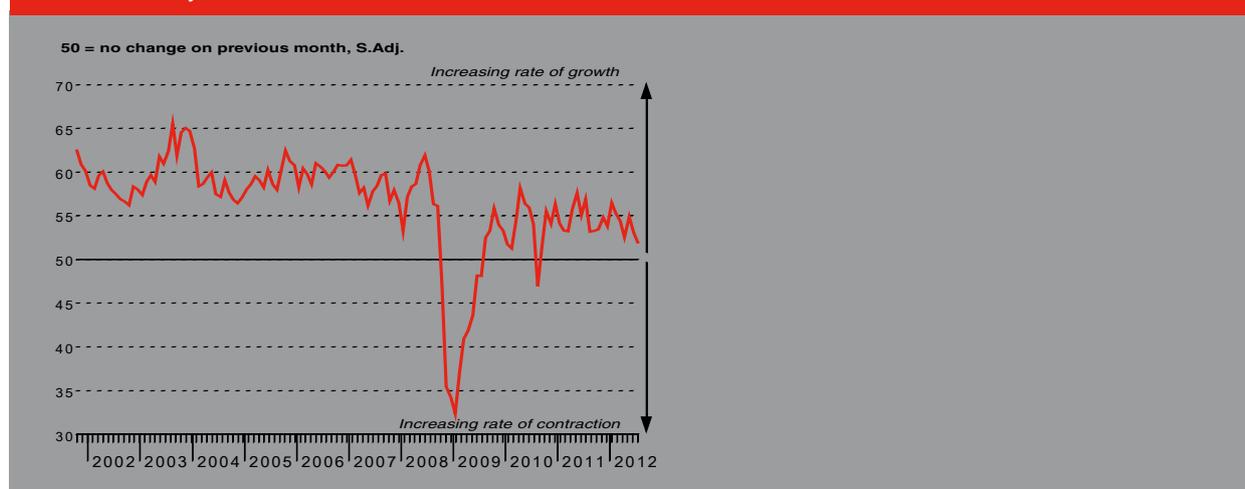
With new workloads barely rising during the month, the volume of incomplete contracts continued to fall. The rate of depletion eased from June's sharp pace, but remained faster than the long-run survey average.

The 12-month outlook for activity deteriorated sharply at the start of the third quarter. Just over one-third of firms expect activity to rise over the next 12 months, compared with 13% that forecast a reduction. The overall degree of sentiment weakened sharply since June, to the worst in 2012 so far and the second-lowest in over three-and-a-half years.

Russian service sector companies took on additional staff in July, the twenty-first successive month of job creation in the sector. The rate of workforce growth picked up from June's marginal pace, and was broadly in line with the average for 2012 so far.

The rate of input price inflation strengthened to a seven-month high in July. Anecdotal evidence linked rising cost pressures to energy, fuel, utilities and labour costs. Companies in Transport & Storage faced the greatest increases on average. That said, overall input cost inflation remained weaker than the long-run survey average. Companies increased their own charges at a faster rate during the month, partly linked to higher fuel prices. In line with the pattern for input costs, the rate of charge inflation remained weaker than the long-run survey average.

Business Activity Index

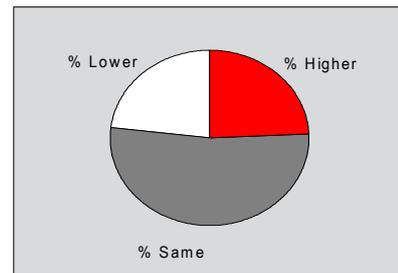
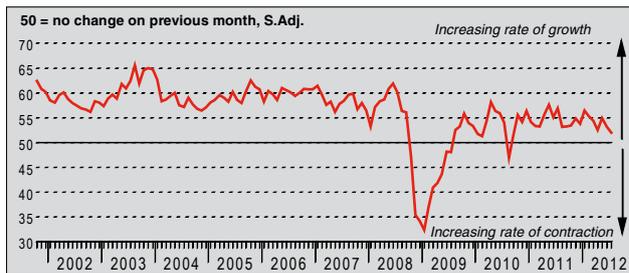


The survey uses a methodology identical to the HSBC Russia Manufacturing PMI®. The survey uses a panel of regularly participating companies to monitor trends in business conditions in the private sector services economy. The panel has been carefully selected to accurately replicate the true structure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

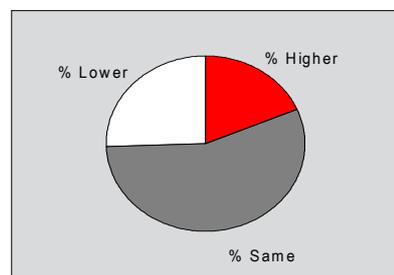
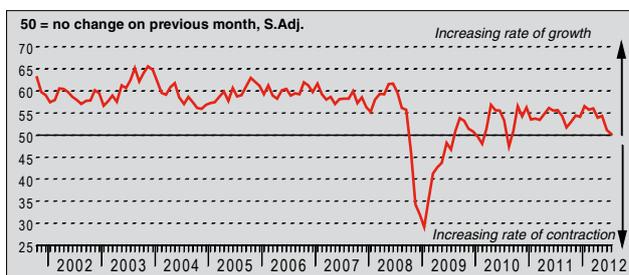
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



The seasonally adjusted Business Activity Index remained above the no-change mark of 50.0 in July, signalling higher activity at Russian service providers. However, the rate of expansion slowed to the weakest since September 2010, when the current growth sequence began. The Index was also well below its long-run trend level of 56.5. Sector data signalled falling activity in Post & Telecommunication and Renting & Business Activities. The strongest expansion was indicated in Transport & Storage.

New Business Index

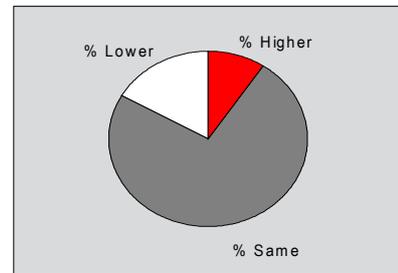
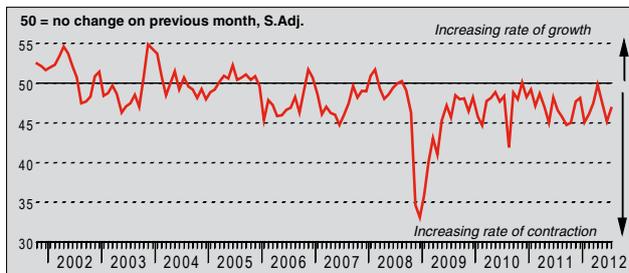
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



The volume of new business received by Russian service providers increased in July, extending the current sequence to 23 months. The seasonally adjusted New Business Index fell for the second month running, however, and the latest reading was indicative of only a marginal rate of growth that was the slowest in the current period of expansion. Moreover, new business declined in three sectors – Financial Intermediation, Renting & Business Activities and 'Other Services'.

Outstanding Business Index

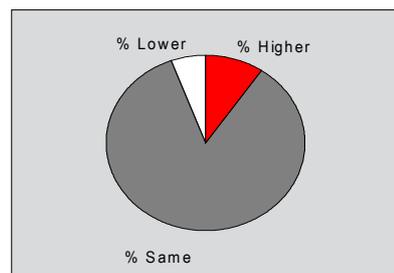
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



Reflective of weaker growth of new business receipts, the volume of outstanding business held at Russian service providers declined further at the start of the third quarter. The rate of contraction eased since June, but remained strong in the context of historic survey data. Some firms reported that they had been able to complete existing workloads as customers had delayed new contracts. The only areas to record higher backlogs were Transport & Storage and Hotels & Restaurants.

Employment Index

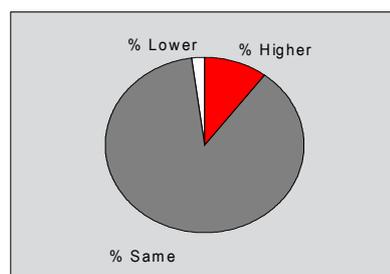
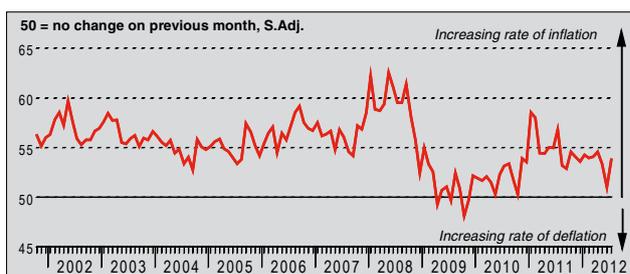
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



Employment growth in Russia's private sector services economy was sustained for the twenty-first successive month in July. Firms mainly linked recruitment to new company developments. The rate of job creation accelerated from June's near-stagnation, but was nevertheless still weaker than the long-run survey trend. Five out of six sectors registered growth of workforces in July, led by Transport & Storage. The exception was Hotels & Restaurants.

Prices Charged Index

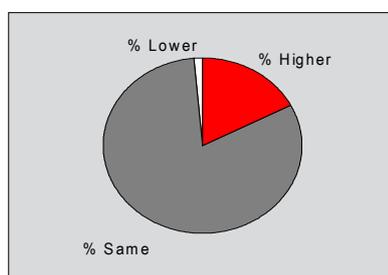
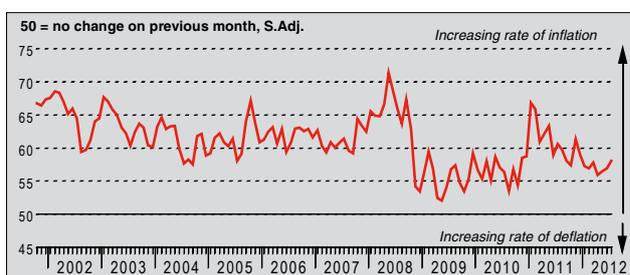
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Russian service providers increased their charges on average in July. The current period of rising tariffs now stretches to 32 months. The rate of charge inflation accelerated to the fastest in three months, but the seasonally adjusted Prices Charged Index remained below its long-run average of 55.3. Charge inflation was broad-based across all six monitored sectors, and sharpest in Transport & Storage. Anecdotal evidence linked higher charges to rising fuel costs in a number of cases.

Input Prices Index

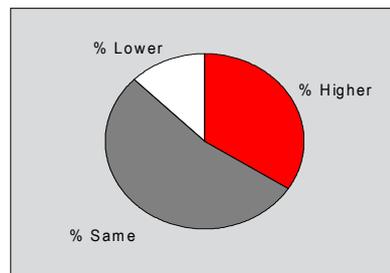
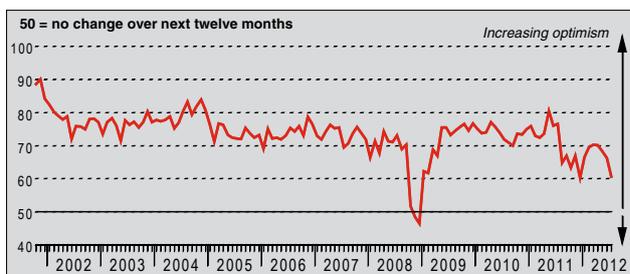
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



The rate of input price inflation strengthened for the third month running in July – the first time that has happened in a year-and-a-half. The seasonally adjusted Input Prices Index reached its highest level in 2012 to date, but remained below its long-run average of 61.1. Transport, energy, utilities and labour costs were all reported to have risen during the month. By sector, the steepest rate of input price inflation was registered in Transport & Storage, followed by Financial Intermediation. Cost pressures were weakest in 'Other Services'.

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 confidence among Russian service sector companies weakened sharply in July. The Business Expectations Index registered one of the largest month-on-month falls in the survey history, and signalled the weakest sentiment in 2012 so far. Only 34% of companies expect activity to be higher in 12 months' time, while 13% forecast a reduction. Positive outlooks were generally linked to company business developments, while a wider economic crisis was the main factor expected to depress business activity.

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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