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## HSBC Russia Services PMI®

### Service sector growth accelerates in September

#### Key findings:

- Business Activity Index registers 54.5, highest since May
- New business also grows at faster rate, but backlogs fall sharply
- Input price inflation remains close to long-run trend level

Russian service sector growth improved at the end of the third quarter, according to HSBC PMI® data compiled by Markit. Total activity rose at the fastest rate since May, supported by a stronger increase in new work. Confidence regarding the 12-month outlook improved, and firms recruited more staff. That said, backlogs contracted at one of the fastest rates in the survey history, suggesting new order inflows must show further improvement to maintain momentum into the final quarter.

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-fifth month in succession in September, signalling a further increase in Russian services output. Moreover, the Index rose further from July's low of 52.0, to 54.5, indicative of a solid pace of expansion.

Total workloads grew both as a result of new business inflows and the completion of existing contracts. Incoming new business increased at the fastest rate since May, albeit one that remained weak in the context of the 11-year survey history. New business growth was strongest in Financial Intermediation, followed by Post & Telecommunications.

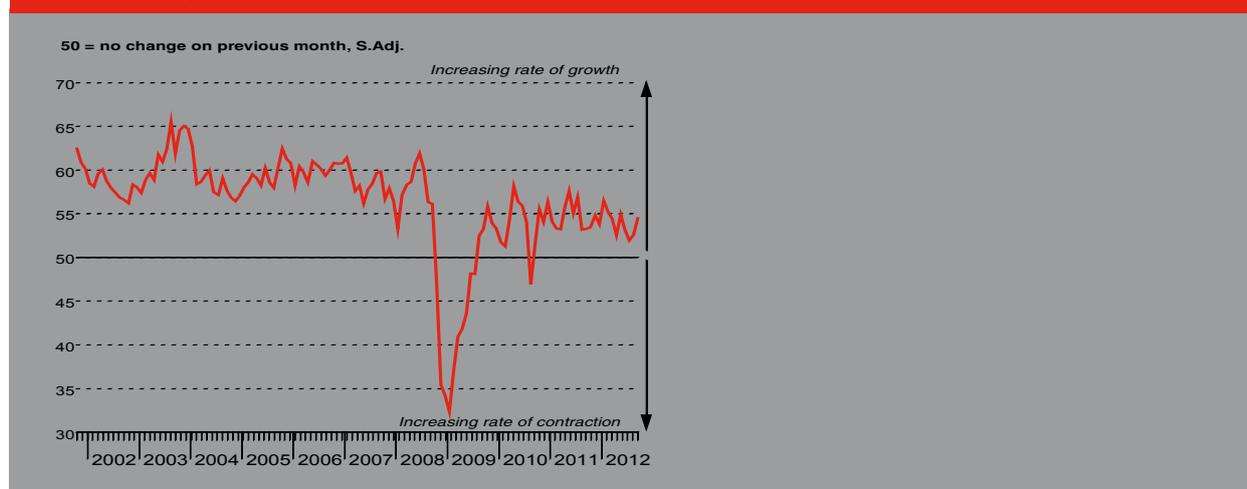
September data marked a steep reduction in outstanding business in Russia's service sector. The rate of depletion was the fastest since August 2010, and one of the strongest recorded since the survey began in October 2001.

Reflecting a stronger increase in new business across the sector, Russian service providers hired more workers in September. Workforces increased in all areas except for Hotels & Restaurants. The overall rate of job creation improved from August's marginal pace, and was slightly stronger than the average for the year to date.

Although the volume of work outstanding dropped sharply in September, service sector companies grew more confident regarding the 12-month outlook for activity. Almost half the survey respondents forecast growth over the forthcoming year, linked to new product initiatives, winning new clients and improving market conditions generally. The overall degree of confidence was the strongest since April.

Cost pressures in the Russian service sector remained strong in September, despite easing slightly from August's nine-month peak. The rate of input price inflation was only slightly weaker than the survey's historic trend level, with price hikes in September linked to utilities, fuel, telecommunications and advertising costs. Service providers continued to increase their own charges for products and services, but the rate of inflation remained relatively weak.

#### Business Activity Index

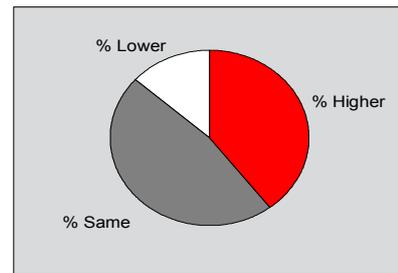
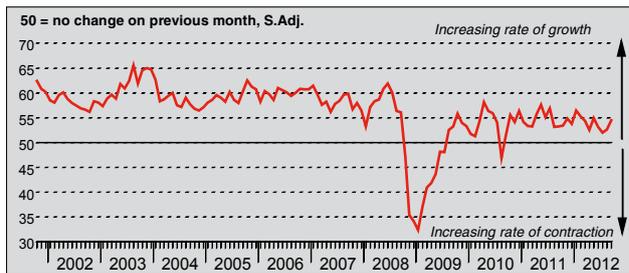


The survey uses a methodology identical to the HSBC Russia Manufacturing PMI®. The survey uses a panel of regularly participating companies to monitor trends in business conditions in the private sector services economy. The panel has been carefully selected to accurately replicate the true structure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

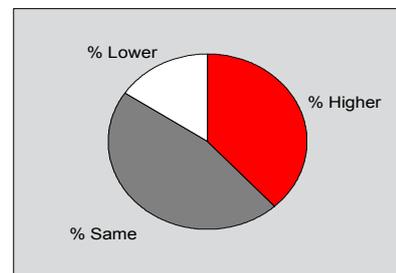
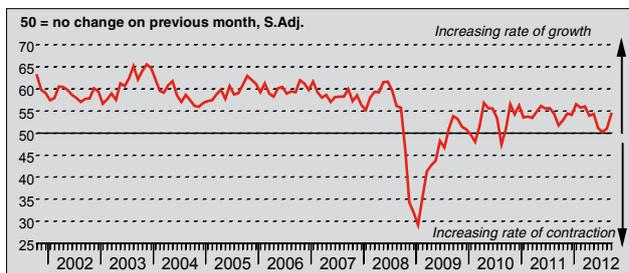
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



Growth of Russian service sector activity continued to gain momentum in September. The seasonally adjusted Business Activity Index improved further from July's 22-month low, to the highest since May. Growth has been maintained for 25 months, and the latest pace of expansion was broadly equal to the trend over that sequence. Firms linked higher activity both to new business and the completion of older contracts. By sector, growth was fastest in Financial Intermediation, while a marginal fall was posted in Renting & Business Activities.

## New Business Index

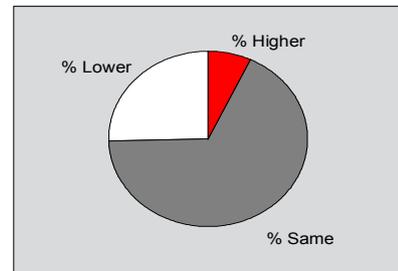
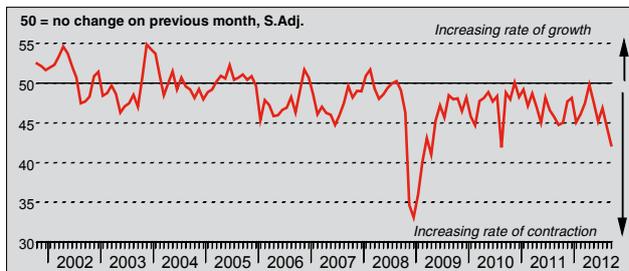
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



September data signalled the strongest growth in new business volumes received by Russian service providers in four months. The seasonally adjusted New Business Index rose for the second month running from July' 23-month low, but remained below its long-run average of 56.3. Some companies reported success in winning new clients from marketing campaigns. Growth of new business was broad-based in September, led by Financial Intermediation.

## Outstanding Business Index

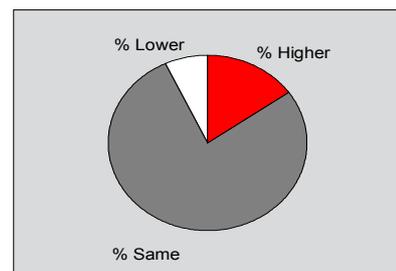
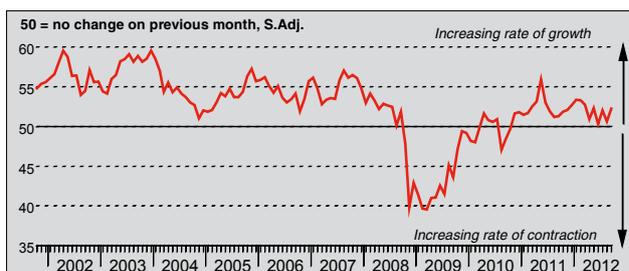
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



Outstanding business held at Russian service providers continued to fall in September, despite the faster increase in new work. Moreover, the rate of depletion was the fastest in over two years, as the seasonally adjusted Outstanding Business Index fell to a 25-month low. Around one-quarter of firms reported declining backlogs, linked to insufficient receipts of new business to fully utilise capacity. The strongest falls were indicated in Post & Telecommunications and Transport & Storage.

## Employment Index

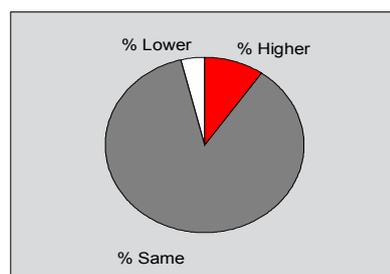
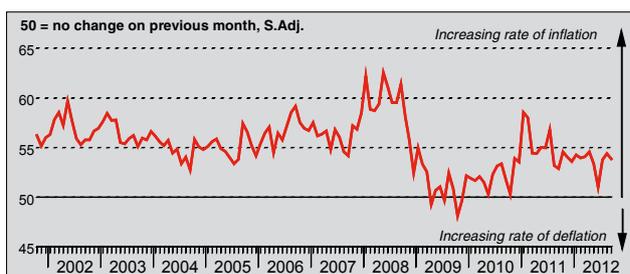
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



Service sector companies in Russia continued to expand workforces on average in September. The seasonally adjusted Employment Index remained above the no-change mark of 50.0 for the twenty-third month in a row, and rose since August to signal the strongest rate of job creation since May. Some firms linked recruitment to rising business requirements, including new premises. Employment growth was registered in five sectors, the exception being Hotels & Restaurants. The strongest job creation was registered in Renting & Business Activities.

## Prices Charged Index

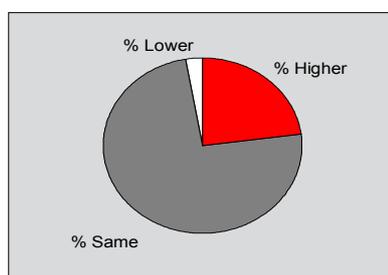
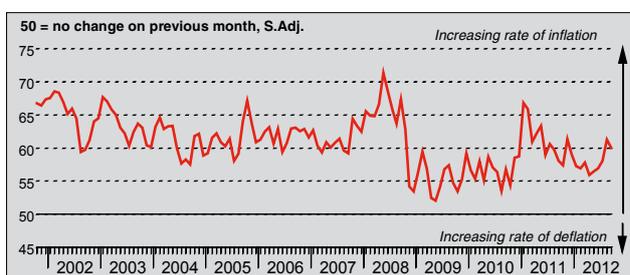
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Russian service providers raised their charges for products and services in September, extending the current sequence of inflation to 34 months. The rate of output price inflation eased from August's four-month high, and remained weak in the context of historic data. Anecdotal evidence linked higher tariffs to cost pressures, but also suggested that competition had restricted the ability of firms to raise charges. All six sectors registered higher output prices, with the strongest rate of inflation seen in 'Other Services'. The weakest rise was in Financial Intermediation.

## Input Prices Index

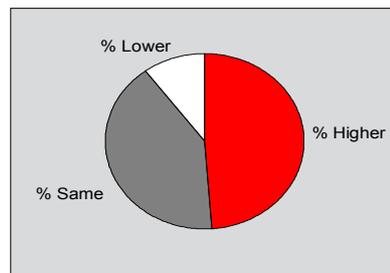
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



Service sector companies continued to report growing average input prices in September. The rate of inflation eased for the first time in five months, but remained strong and was only slightly weaker than the long-run survey average. Around 23% of firms faced rising input prices during the month, mainly linked to utilities, fuel, telecommunications and advertising costs. Reflecting this, the sharpest rates of input price inflation were registered 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, on balance, expect activity at their units to be higher in one year's time than current levels. The Business Expectations Index signalled the strongest overall degree of positive sentiment for five months, having posted the largest one-month gain since January. Almost half the survey respondents forecast growth of activity, linked to new clients, expanded product ranges and improving market conditions. Business expectations were strongest in Post & Telecommunications, Hotels & Restaurants and 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.

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