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# HSBC Russia Services PMI®

New business rises at fastest rate in over four years

### Key findings:

- Strongest gain in new work since July 2008
- Business Activity Index improves to 57.3; highest since May 2011
- Employment increases at fastest rate since February

The Russian service sector continued to gain momentum at the start of the fourth quarter, according to HSBC *PMI*<sup>®</sup> data compiled by Markit. Growth rates for total activity, employment and new business all accelerated, with the latter rising at a pace not seen since before the global financial crisis in late-2008. Input prices continued to rise sharply, but the pass-through of costs to final charges for services remained limited.

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.

Remaining above the no-change threshold for the twenty-sixth month in succession in October, the HSBC Russia Services Business Activity Index signalled a further increase in Russian services output. Increasing for the third survey running to 57.3, the latest figure indicated the strongest rate of growth since May 2011, and was the third-highest since July 2008. October marked a turnaround from the third quarter as a whole, which registered the weakest growth of activity since Q3 2010.

The acceleration in Russian service sector activity growth in October mainly reflected a sharper increase in new business volumes. The pace of expansion in new workloads was the fastest since July 2008, in stark contrast to the marginal increase

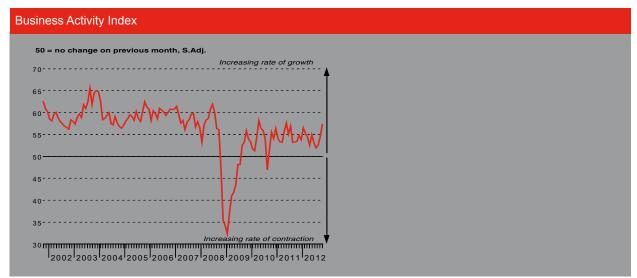
registered three months' previously.

Having declined at the fastest rate in over two years in September, the volume of outstanding business held at Russian service sector companies contracted at a much slower rate at the start of the fourth quarter. This mainly reflected the sharp increase in new work during the latest period.

Russian service providers expanded workforces in October to meet increasing demand. The current sequence of job creation now stretches to two years, and the latest increase was the strongest since February. Moreover, all six sub-sectors covered by the survey reported net staffing growth.

Input prices paid by Russian service providers continued to rise in October, linked to higher costs for fuel, energy, utilities and labour. Though sharp overall, the rate of inflation was the weakest in three months and below the survey's historic trend. Similarly, output price inflation was weak in the context of historic survey data and the slowest in four months.

When asked about their expectations for total business volumes in 12 months' time, Russian service providers were strongly optimistic. Although, the overall degree of positive sentiment dipped slightly since September and remained weaker than the long-run survey average, it was nevertheless stronger than the trend seen over the summer. Firms expect company investment plans and growth of the overall Russian economy to support activity.



The survey uses a methodology identical to the HSBC Russia Manufacturing PMI<sup>®</sup>. 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.

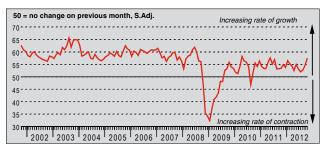
Questionnaires are dispatched at mid-month, requesting comparisons of the current situation with that of one month previously. Purchasing Managers' Index™ and PMI<sup>®</sup> are trade marks of Markit Economics Limited, HSBC use the above marks under licence. Markit and the Markit logo are registered trade marks of Markit Group Limited.

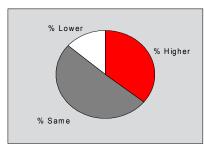




#### **Business Activity Index**

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.



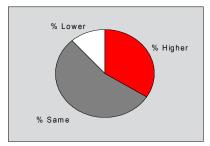


The rate of growth of Russian service sector activity accelerated for the third month in succession in October. The seasonally adjusted Business Activity Index improved to the highest since May 2011, and the third-highest since July 2008. Anecdotal evidence linked higher business volumes to strengthening demand, new clients and new business premises. By sub-sector, the strongest rates of activity growth were registered in Hotels & Restaurants and Financial Intermediation respectively.

#### 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.





October data signalled a sharp rise in the volume of incoming new business received by Russian service providers. The latest rate of expansion was the fastest since July 2008, a marked turnaround from three months' previously when new business intakes slowed to near-stagnation. Moreover, the seasonally adjusted New Business Index was above its long-run average of 56.3 during the month. New business rose across all sectors except for Transport & Storage. The fastest increases were signalled in Hotels & Restaurants and Financial Intermediation respectively.

# 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.





Russian service sector companies registered a fall in incomplete workloads in October, extending the current sequence of depletion to 23 months. That said, the rate of contraction in the latest period was the slowest since April and in contrast to September, which saw the steepest drop in over two years. The seasonally adjusted Outstanding Business Index was broadly in line with its long-run trend level during the month. Sector trends differed, with backlog growth in Hotels & Restaurants and 'Other Services' contrasting with rapid declines in Post & Telecommunication 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).

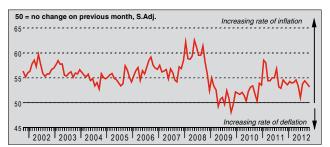


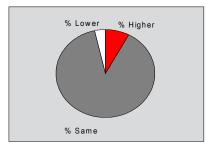


Stronger growth in new business and company expansions resulted in a faster increase in Russian service sector employment in October. The seasonally adjusted Employment Index remained above the no-change mark of 50.0, extending the current period of job creation to two years. Moreover, the rate of workforce growth was the fastest since February, and stronger than the long-run survey average. Employment growth was also broad-based across all six sub-sectors, led by 'Other Services'.

#### 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.

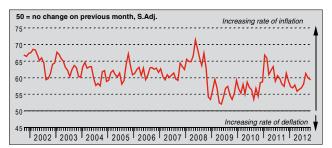


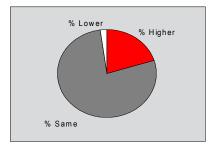


Pricing power among Russian service providers remained subdued in October. The seasonally adjusted Prices Charged Index eased to a four-month low, and was weak in the context of historic survey data. Only around 8% of surveyed firms reported higher charges for their services than one month previously. Firms in the Financial Intermediation sector lowered their tariffs on average, while the sharpest increase was seen in 'Other Services'.

#### 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.



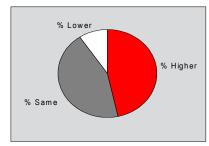


Survey data indicated a strong increase in Russian service providers' average input prices in October. That said, the rate of inflation eased to a three-month low, and the seasonally adjusted Input Prices Index was below its long-run average of 61.1. Around one-in-five service providers reported higher cost burdens during the month, mainly linked to fuel, energy, utilities and salary pressures. By sector, the fastest rate of input price inflation was registered in Post & Telecommunication, and the weakest in 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 12-month outlook for the Russian service sector remained firmly positive in October. Around 47% of survey respondents forecast activity to rise over the next year, compared with one-in-ten that foresee a reduction. Reasons provided for positive sentiment include company developments, winning new clients, large scale projects, brand developments and wage growth in Russia. That said, the Business Expectations Index remained below its long-run trend level of 73.6 during the latest period.

## 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 an '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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