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HSBC Russia Services PMI®

Services growth remains strong towards end of 2012

Key findings:

- Business Activity Index little-changed at 57.1
- Employment increases at fastest rate since May 2011
- New business growth slows since October

The Russian service sector maintained a strong growth rate approaching the end of 2012, according to HSBC PMI® data compiled by Markit. Total activity rose at a rate close to October's 17-month high, and employment rose at the fastest pace since May 2011. That said, new business growth slowed, pointing to a moderation in overall expansion in the coming months, and business sentiment remained below the survey's long-run trend.

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-seventh month in succession in November, the HSBC Russia Services Business Activity Index signalled a further increase in Russian services output. The Index fell for the first time since July to 57.1, from 57.3, but the latest figure was still the second-highest since May 2011. Taken together, data for Q4 so far suggests underlying service sector growth is the strongest since Q3 2008. Firms attributed growth in activity to expanded client bases, marketing and promotional efforts and new product development.

The ongoing strength of growth in total workloads was reflected in

a sharper rate of job creation in the services sector in November. Companies expanded workforces at the fastest rate since May 2011, and all areas of the services economy registered growth in headcounts, building on October's broad-based increases.

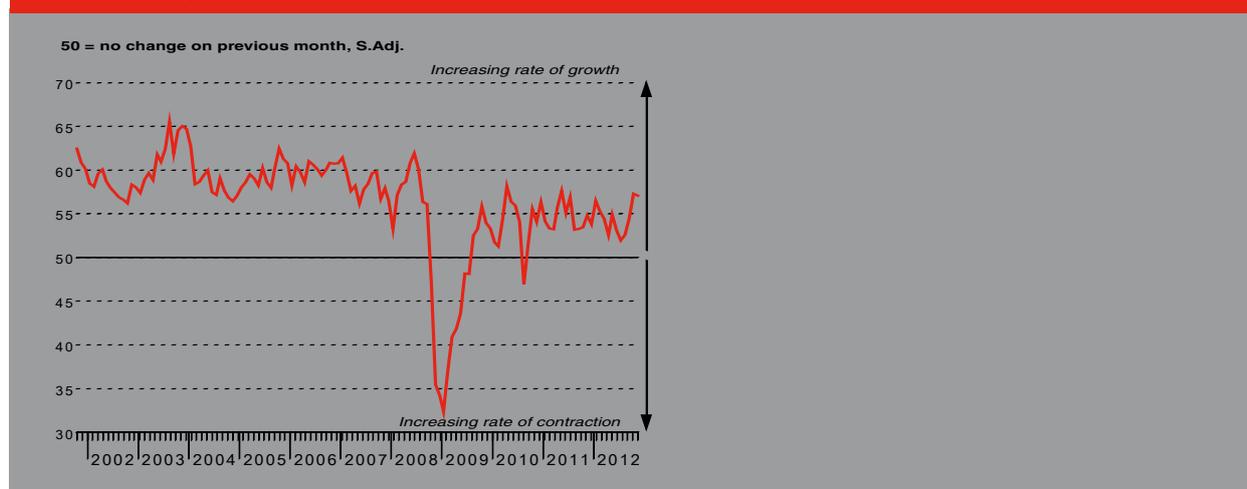
Recruitment by Russian service providers supported the completion of existing workloads in November. The volume of outstanding business declined for the twenty-fourth month in succession, albeit at a weaker rate than the average over this sequence.

The relatively modest decline in backlogs partly reflected October's strong increase in new business. However, the rate of new business growth slowed in November, to a pace that was broadly in line with the average for 2012 to date.

Sentiment regarding activity trends over the next 12 months remained positive in November, although less than half of the survey panel forecast growth. Consequently, the degree of confidence remained weaker than the historic trend since the survey began in late-2001.

Inflationary pressures also remained weak in the context of historic survey data in November. Input price inflation eased to a four-month low, while prices charged for services increased at the softest pace since June. Where input prices increased, this was mainly attributed by survey respondents to higher fuel, utility and labour costs.

Business Activity Index

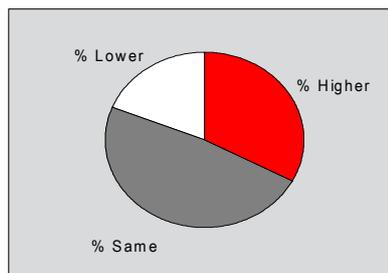
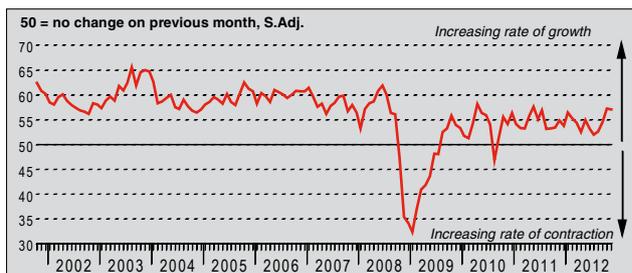


The survey uses a methodology identical to the HSBC Russia Manufacturing PMI®. The survey uses a panel of regularly participating companies to monitor trends in business conditions in the private sector services economy. The panel has been carefully selected to accurately replicate the true structure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

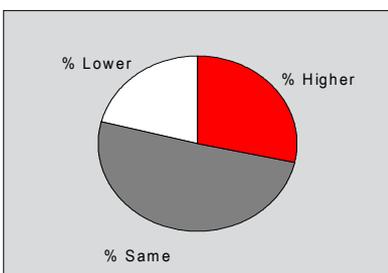
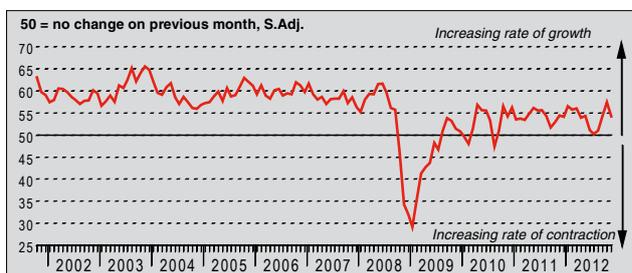
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



Growth of business activity at Russian service providers was maintained in November, extending the current sequence of growth to 27 months. Moreover, the rate of expansion remained strong, with the Index little-changed from October's 17-month high. The Index remained above its long-run average during the month (56.4). By sector, the fastest growth rates were indicated in 'Other Services', Post & Telecommunication and Financial Intermediation. Firms linked higher activity to expanded client bases, marketing and promotional efforts and new product development.

New Business Index

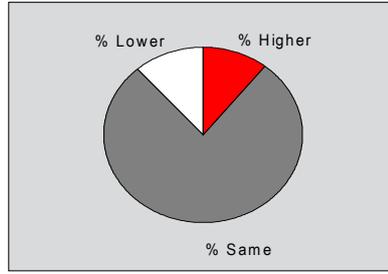
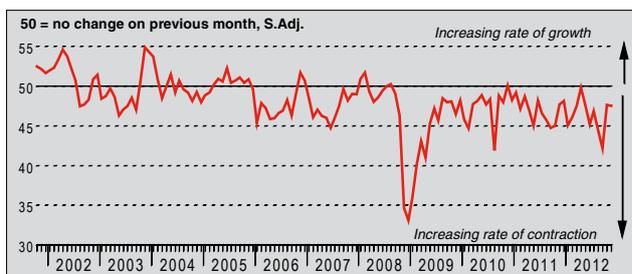
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



The volume of new business received by service sector companies also increased for the twenty-seventh month running in November. Growth was linked to improving demand, successful marketing and access to new customers. However, unlike the trend for total activity, the rate of expansion in new business slowed from October's strong pace. The seasonally adjusted New Business Index fell for the first time since July, and was broadly in line with the average for 2012 so far. New business rose in all sectors except for Transport & Storage, where it fell sharply.

Outstanding Business Index

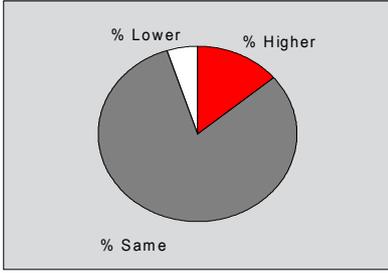
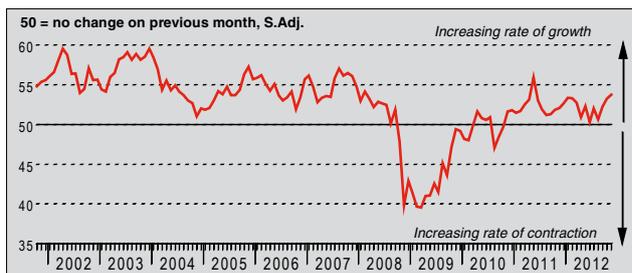
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



Outstanding work at Russian service providers fell further in November, reflecting a further strong increase in total activity and a weaker rise in new business. The seasonally adjusted Outstanding Business Index remained below the no-change mark of 50.0 for the twenty-fourth successive month, and the rate of decline signalled by the latest figure was slightly weaker than the average over this period. Three sectors posted lower backlogs, namely Post & Telecommunication, Transport & Storage and Financial Intermediation.

Employment Index

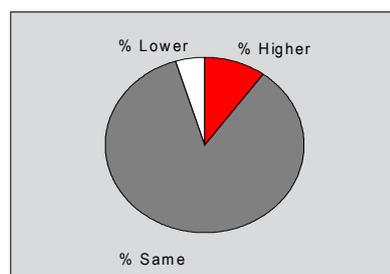
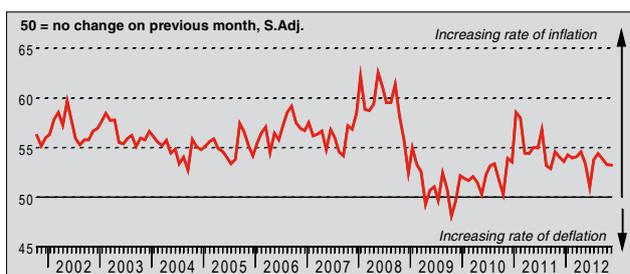
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



Russian service sector employment rose in the latest period, continuing the trend shown since November 2010. Moreover, the seasonally adjusted Employment Index rose for the third successive month, and signalled the fastest rate of job creation since May 2011. Recruitment was attributed to company developments and higher workloads. For the second month running, all six sectors covered posted higher staffing.

Prices Charged Index

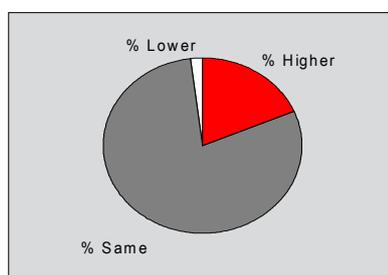
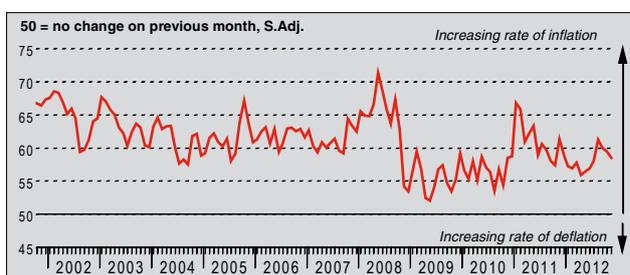
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Service providers in Russia increased their prices charged on average in November. The current period of rising tariffs now stretches to three years. That said, the latest data signalled a further muted rate of inflation that was weak in the context of the trend shown over the survey history. The seasonally adjusted Prices Charged Index also declined to a five-month low. By sector, charges fell slightly in Hotels & Restaurants and were flat in Financial Intermediation.

Input Prices Index

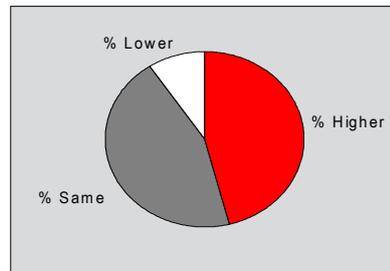
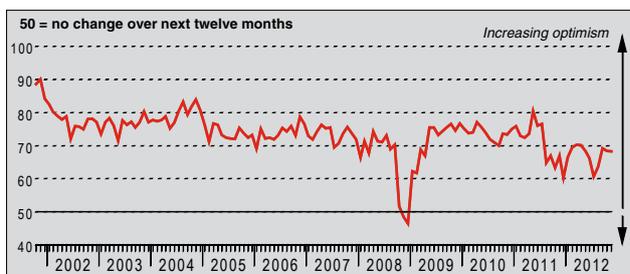
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



Cost burdens in the Russian services economy continued to grow in November. The seasonally adjusted Input Prices Index signalled a sharp overall rise in average input costs, albeit one that was the slowest in four months and weaker than the long-run survey trend. Around 19% of firms reported higher input prices compared with October, mainly linked to fuel, utilities and wages. By sector, the strongest rate of input cost inflation was registered in Post & Telecommunication, 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?



The 12-month outlook for the Russian service sector remained positive in November. The Business Expectations Index remained well above neutrality, albeit at a level below the long-run survey average (73.5) and the lowest since August. Close to 46% of firms expect activity to rise over the next year, linked to planned company investments, new business premises, expanded client bases, favourable growth conditions in Russia and a recovery in the wider global economy. Sentiment was strongest in Hotels & Restaurants, and weakest in Financial Intermediation.

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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