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HSBC Russia Services PMI®

Services growth remains solid in December

Key findings:

- Business Activity Index eases slightly to 56.1
- New business increases at marked rate
- Strongest rise in jobs since May 2011

The Russian service sector registered another solid performance in the final month of 2012, according to HSBC *PMI*® data compiled by Markit. Total activity rose at the weakest rate in three months, but one that remained sharp overall while new business increased strongly. Jobs were created at the fastest pace since May 2011.

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 50.0 no-change threshold for the twenty-eighth month in succession in December, the seasonally adjusted HSBC Russia Services Business Activity Index signalled a further increase in Russian services output. The Index eased to 56.1, from 57.1 in November. That indicated a sharp overall expansion, albeit the weakest in three months.

The average Business Activity Index reading for Q4 (56.8) signalled the best performance of any quarter since Q2 2010. Moreover, the annual average for 2012, at 54.7, is the best result since 2007.

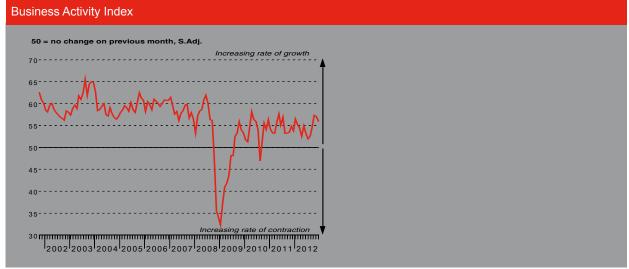
Total growth of activity was supported by a stronger increase in new business volumes in December. Having slowed the previous month, the pace of expansion nearly matched October's 51month record. Anecdotal evidence linked new business wins to increased client numbers and competitive pricing.

Although new workloads increased sharply in December, the volume of outstanding business fell at a robust pace. The rate of backlog depletion was the fastest since September, and extended the current sequence to over two years.

Service sector employment increased at a faster rate in December to meet business requirements. Staffing has increased continuously since November 2010, and the rate of growth in the latest period was the second-fastest over this sequence (the fastest was in May 2011).

Russian service providers' average input prices increased at a slightly faster rate in December. The rate of inflation was stronger than the average for 2012, but still relatively weak in the context of historic survey data. Upward pressure on cost burdens was linked to higher prices for utilities, fuel and labour. Meanwhile, firms raised their own charges at a solid rate, but the pace of inflation remained weaker than the long-run survey average.

Around 42% of Russian service providers expect business activity to rise over the course of 2013 from current levels. Growth expectations were linked to regulatory improvements, favourable market conditions and a global economic recovery. The overall degree of positive sentiment was, however, the weakest in four months.



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.

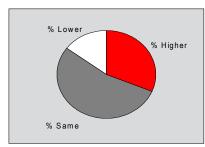




Business Activity Index

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.

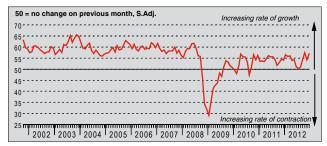


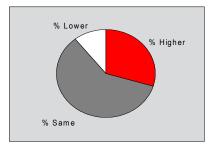


Service sector activity in Russia increased at a sharp rate in December. Firms linked higher activity to expanded client bases, big projects and competitive pricing. That said, the rate of expansion was the slowest in three months, as signalled by a fall in the seasonally adjusted Business Activity Index. The latest figure was the fourth-highest in 2012, but slightly below the long-run average of 56.4. Growth was registered in four sectors, led by Other Services, Post & Telecommunications and Financial Intermediation.

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 at a strong rate in December. Firms reported increased numbers of clients. Having slowed the previous month from October's 51-month high, the pace of new business expansion regained momentum and was the second-fastest since July 2008. The average index reading for the fourth quarter (56.3) was the highest since Q3 2008. New business growth was strongest in Other Services and 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.



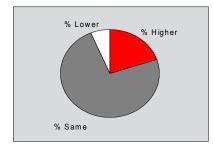


Outstanding workloads in the Russian service sector declined sharply in December. The seasonally adjusted Outstanding Business Index fell to a three-month low, and was below the average for 2012 (46.3). Backlogs at service providers have fallen every month since December 2010. The completion of outstanding business was partly linked to efforts to boost performance and competitiveness. Backlogs fell in four sectors, namely Transport & Storage, Post & Telecommunications, Financial Intermediation 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).





Russian service sector employment rose for the twenty-sixth consecutive month in December. Moreover, the rate of job creation strengthened for the fourth straight month, to the highest since May 2011. The seasonally adjusted Employment Index has been above its long-run average of 52.8 throughout the final quarter of 2012. Firms linked recruitment to new business and company development projects. Jobs growth was broad-based by sector, with the strongest increase seen in 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.

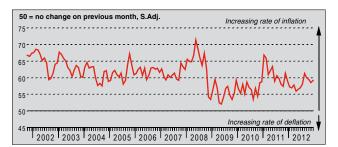


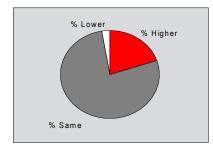


Russian service providers increased their charges on average in December, as has been the case since December 2009. The rate of inflation was little-changed from November's modest pace, as the seasonally adjusted Prices Charged Index remained broadly stable for the third month running. Higher prices for services rendered was partly linked to rising input costs. Tariffs rose sharpest in Other Services, followed by Transport & Storage and Renting & Business Activities.

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.



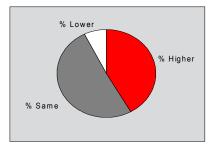


Average input prices paid by Russian service sector companies rose at a faster rate in December. The rate of inflation picked up slightly since November, but was still the second-weakest in five months and below the long-run survey average. Around one-in-five survey respondents reported higher input prices, linked mainly to utilities, fuel and wages. By sector, the steepest increases in input prices were 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?





Business sentiment among Russian service providers remained firmly positive in December. Activity is forecast to rise over the next 12 months at 42% of survey respondents. The Business Expectations Index eased to a four-month low, however, and was below the long-run survey average of 73.4. Positive sentiment was linked to expected improvements in the business regulatory environment, more stable market conditions, global economic recovery and better quality products and services. Sentiment was strongest in Other Services and Post & Telecommunications.

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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