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## HSBC Russia Services PMI®

Service sector expansion remains robust in February

### Key findings:

- Business Activity Index little-changed from January at 56.1
- New business expansion eases to three-month low
- Employment growth weaker than long-run survey average

Growth of the Russian service sector was maintained at a robust pace in February, according to HSBC *PMI*® data compiled by Markit. New business growth remained sharper than the trend shown through the course of 2012, and service providers continued to expand their workforces on average. Overall activity growth was broadly in line with the survey's historic trend, although the 12-month outlook deteriorated slightly in February to the lowest since last August. Inflationary pressures in the sector remained relatively modest, with pricing power among service providers notably weak.

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 in February, the seasonally adjusted HSBC Russia Services Business Activity Index signalled a further increase in services output. Having fallen during the prior three months, the Index improved slightly to 56.1, from 55.7, a figure higher than the average for 2012 (54.7) and broadly in line with the long-run average for the survey (56.4). The current sequence of expansion in services business activity now stretches to two-and-a-half years.

Continuing the trend shown since September 2010, the volume

of incoming new business received by Russian service providers increased in February. The rate of expansion eased slightly to a three-month low, but was nevertheless stronger than the average over the current sequence. A number of firms reported winning new customers and launching new products during the month.

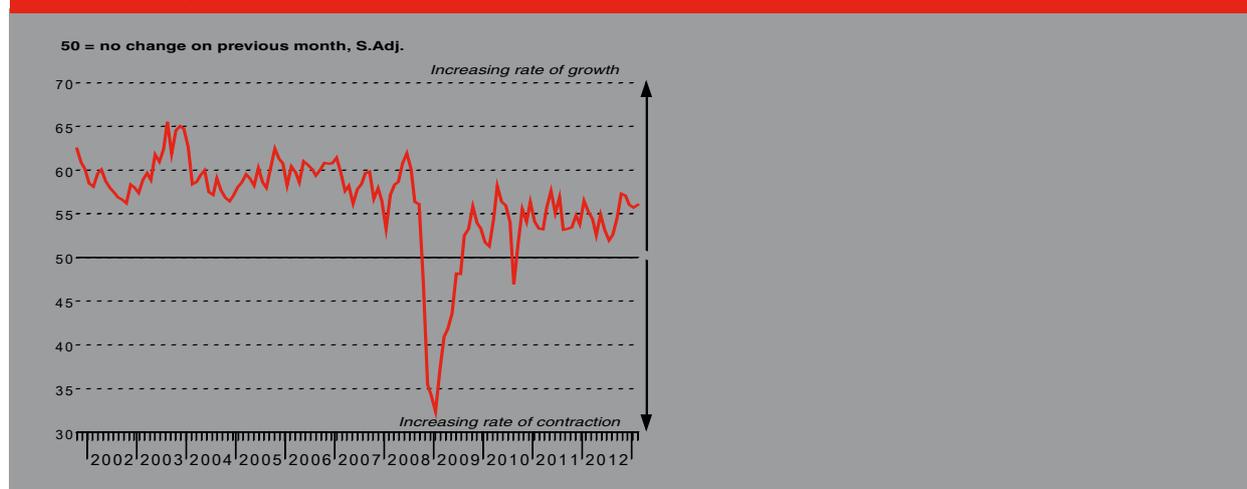
Job creation in the Russian service sector was maintained in February, albeit at a modest rate little-changed from January's five-month low. Nevertheless, this expansion of business capacity was sufficient to generate another decline in the volume of outstanding business in February. Incomplete workloads have fallen every month since December 2010, and the rate of depletion accelerated in the latest period.

The rate of input price inflation in the Russian service sector was little-changed from January's seven-month low in February. Moreover, it remained weak in the context of historic survey data. Where input prices rose, this was mainly linked to higher costs for energy, fuel and salaries.

Pricing power remained weak in February. The rate of output price inflation slowed for the sixth month running to the weakest since June 2012.

The 12-month outlook for activity in the Russian service sector remained strong in February, but moderated to the weakest since last August and remained below the survey's long-run trend. Firms expect workloads to be supported by investment, new clients and wider economic growth.

### Business Activity Index

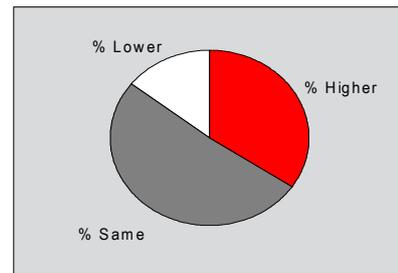
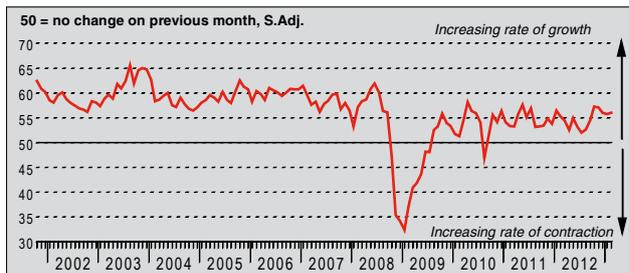


The survey uses a methodology identical to the HSBC Russia Manufacturing PMI®. The survey uses a panel of regularly participating companies to monitor trends in business conditions in the private sector services economy. The panel has been carefully selected to accurately replicate the true structure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

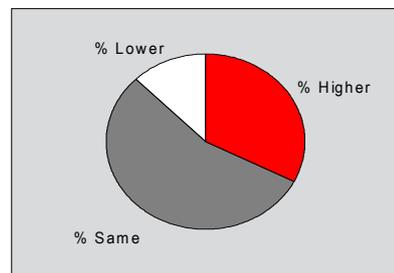
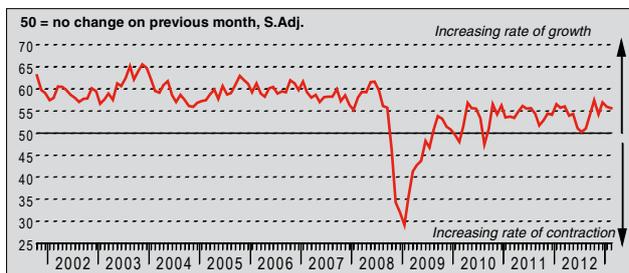
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



Growth of business activity at Russian service providers was broadly stable at a solid pace in February. The seasonally adjusted Business Activity Index improved marginally from January, and was broadly in line with its long-run average of 56.4. It was also higher than the trend shown over 2012 (54.7). Expansion was linked to improving demand and new marketing strategies. Growth was registered in five sectors, led by Post & Telecommunication. The exception was Transport & Storage, where a further decline was signalled.

## New Business Index

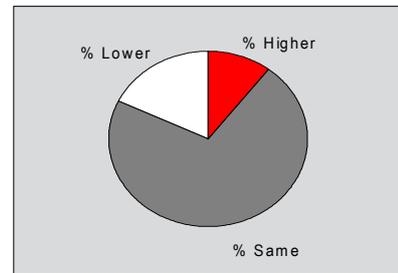
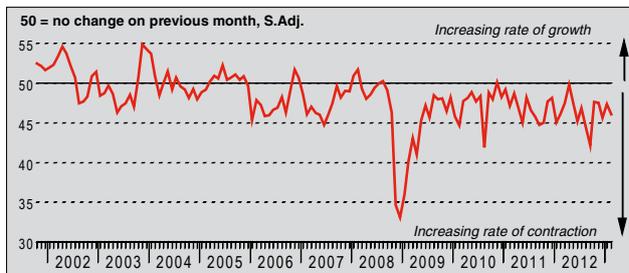
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



Incoming new work at Russian service providers increased solidly in February, albeit at the weakest rate for three months. New business volumes have increased continuously for the past two-and-a-half years. Anecdotal evidence from survey respondents linked expansion to marketing drives, new customers, the launch of new products and improving demand generally. New business expansion was fastest in 'Other Services', followed by Post & Telecommunication, while a decline was signalled in Hotels & Restaurants.

## Outstanding Business Index

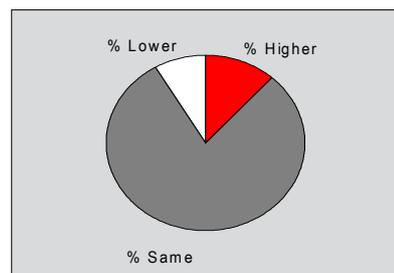
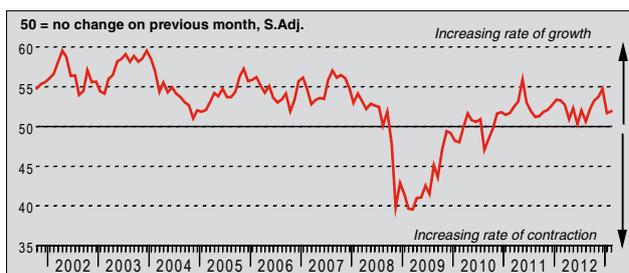
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



The seasonally adjusted Outstanding Business Index remained below the no-change mark of 50.0 for the twenty-seventh successive month in February, indicating an ongoing decline in incomplete workloads in the Russian service sector economy. The rate of depletion was faster than in January, and broadly in line with the trend shown during 2012. Backlogs declined in five sectors, the exception being Transport & Storage where a solid increase was reported.

## Employment Index

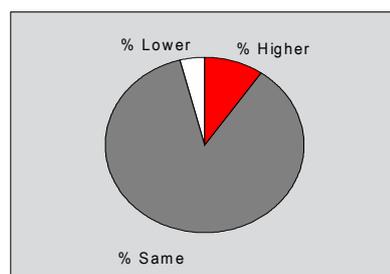
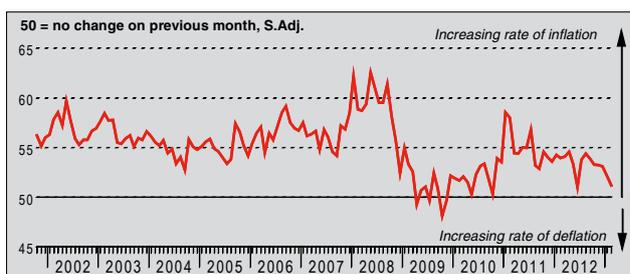
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



Service sector employment in Russia expanded for the twenty-eighth successive month in February. The rate of job creation edged up from January's five-month low, but was nevertheless weaker than the survey's long-run average. Firms linked recruitment to the expansion of business capacity and higher workloads. Employment growth was registered in five sectors, the exception being Hotels & Restaurants.

## Prices Charged Index

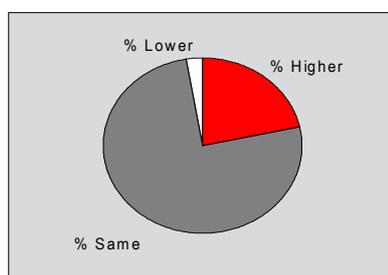
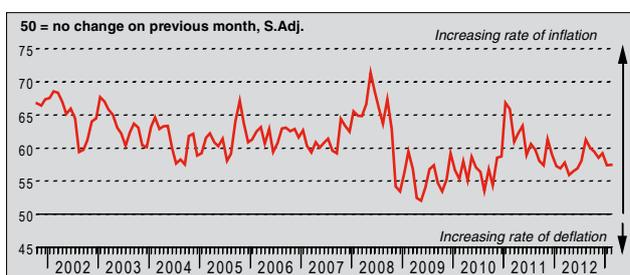
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Pricing power at Russian service providers remained weak in February. The seasonally adjusted Prices Charged Index declined for the sixth month in succession, to the lowest level since June 2012. It was also well-below its long-run trend level of 55.2. Reflecting this, 86% of respondents reported no change in output prices since January. Charges rose modestly in five out of six subsectors, the exception being Post & Telecommunication where a marginal fall was registered.

## Input Prices Index

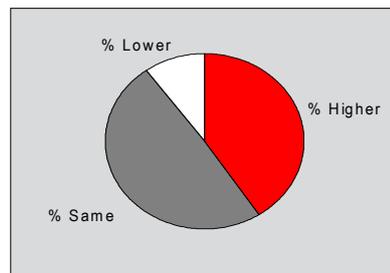
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



The rate of input price inflation in the Russian service sector was little-changed from January's seven-month low in February. Moreover, the seasonally adjusted Input Prices Index remained below its long-run average of 61.0. Where input prices rose, at 22% of respondents, the main sources were reported to be fuel, energy and salaries. By sector, input price inflation was strongest in Post & Telecommunication, and weakest in Financial Intermediation.

## 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 level of positive sentiment among Russian service providers regarding the 12-month outlook for activity remained strong in February, but moderated for the fifth month in a row. The Business Expectations Index fell to a six-month low, and remained weaker than the long-run survey average of 73.3. Just over 40% of respondents forecast activity growth, linked to new clients, investment and wider economic growth. By sector, sentiment was strongest in 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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