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HSBC Russia Services PMI®

Service sector growth slows to eight-month low in April

Key findings:

- Business Activity Index falls to 53.0
- Employment rises at fastest rate in 2013 so far
- Outlook improves for first time since September 2012

Growth of the Russian service sector weakened further at the start of the second quarter, according to HSBC *PMI*® data compiled by Markit. The rate of expansion in activity slowed for the second month running, reflecting a further below-par increase in new business. The main bright points from the latest survey findings were a faster rise in employment and a strengthening in business expectations. Meanwhile, inflationary pressures remained weak by the survey's historical standards, although charges rose at the strongest rate in seven months.

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 April, the seasonally adjusted HSBC Russia Services Business Activity Index signalled a further increase in services output. That said, the Index declined further, from 54.6 to 53.0, indicating the slowest expansion since last August. Growth has slowed five times in the past six months, since reaching a 17-month peak in October 2012.

Continuing the trend shown since September 2010, the volume of incoming new business received by Russian service providers rose in April. The rate of growth was, however, little-changed from March's four-month low, and remained weak in the context of

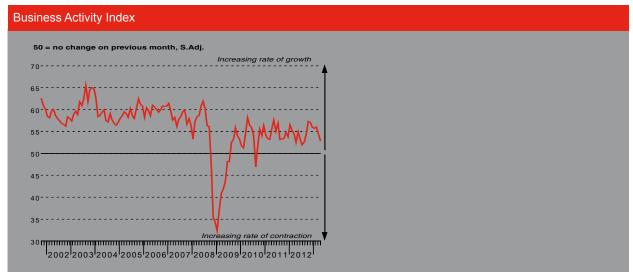
historic data.

The volume of incomplete work in the Russian service sector continued to fall in April, extending the current sequence of decline to 29 months. The rate of growth accelerated since March, and was stronger than the long-run survey average, indicating spare business capacity in the sector. The only sub-sector not to record lower incomplete business was Transport & Storage.

The Russian service sector added jobs in April, as has been the case every month for the past two-and-a-half years. Moreover, the rate of employment growth strengthened further and was the fastest registered in 2013 to date. Five sub-sectors registered increases, the exception being 'Other Services' where a flat trend was indicated.

Survey data indicated another sharp rise in average input prices paid by service sector companies, linked to utilities, fuel and growing tax burdens. That said, the overall rate of input cost inflation remained below the long-run series average, as did that for prices charged for services. Where service providers increased their prices, this was linked both to higher costs and wider inflationary trends in the economy.

The 12-month outlook for activity remained positive in April. Moreover, the strength of business sentiment improved slightly, having previously weakened for six straight months. Over three times as many companies predict growth as those that expect a decline



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.

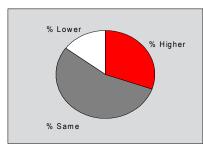




Business Activity Index

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 rose at a slower rate in April. The seasonally adjusted Business Activity Index fell for the second month running, and the latest figure indicated the slowest pace of expansion since August 2012. Growth was also softer than the average over the current 32-month sequence of expansion. Where business levels rose, firms reported new clients, higher domestic demand and new projects. Activity growth was broad-based by sector, led by Finanical 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.

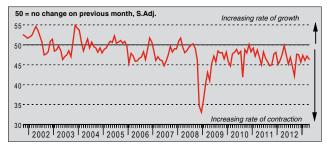


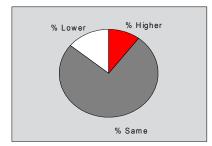


The seasonally adjusted New Business Index remained above the no-change mark of 50.0 for the thirty-second successive month in April, signalling higher intakes of new work at Russian service providers. The rate of expansion was little-changed from March's four-month low, and weak in the context of historic survey data. Firms reported new advertising campaigns and positive developments in domestic demand. All six sectors registered higher intakes of new business, with the strongest rise seen in Post & Telecommunication.

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.



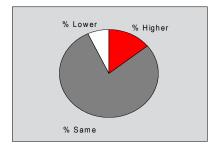


The volume of incomplete business in the Russian service sector economy fell further in April. The current sequence of decline now stretches to 29 months. The rate of contraction accelerated since March, and was broadly in line with the average over the past year. Declining volumes of outstanding business across the sector reflected relatively weak inflows of new work, although some firms also commented on improved efficiency. Backlogs declined in all sectors except for Transport & Storage, where a marked increase was registered.

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).

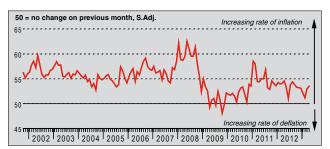




Service sector employment in Russia continued to rise in April, extending the current period of job creation to two-and-a-half years. Moreover, the seasonally adjusted Employment Index improved for the third month in succession, and indicated the strongest rate of workforce growth in 2013 so far. Around 14% of firms registered higher staffing levels compared with one month previously, linking recruitment to new business wins. Employment rose in five sectors, the exception being 'Other Services' where a flat trend was indicated.

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.

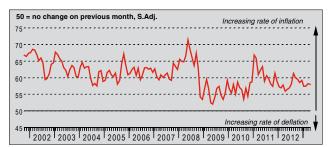


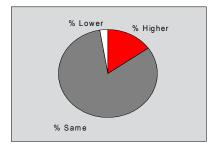


Russian service providers increased their charges in April. The seasonally adjusted Prices Charged Index remained above the no-change mark of 50.0 for the forty-first successive month, and the latest figure indicated the fastest rate of inflation since last September. That said, output price inflation remained weaker than the long-run survey average. Firms linked higher charges to wider inflationary pressures and the effect of increased business costs. Charges rose in all six sub-sectors, led by Hotels & Restaurants and Post & Telecommunication.

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.



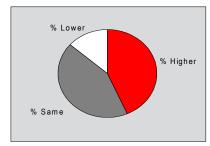


The rate of input price inflation facing Russian service sector companies was little-changed in April from the previous month, and broadly similar to the trend shown over the past year. The seasonally adjusted Input Prices Index signalled a marked rate of increase, albeit one that remained weaker than the long-run survey average. Rising cost pressures were often linked to utilities, fuel and higher taxes. Input price inflation was broad-based by sector, with the steepest increases seen in Post & Telecommunication and Transport & Storage respectively.

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 expectations at service sector companies regarding the 12-month outlook for activity improved for the first time in seven months in April. The Business Expectations Index rose from March's eight month low, but was still below the long-run series average (73.2). Around 43% of firms expect higher business activity over the forthcoming year, linked to an improved wider economy, new product developments and expansion into new markets. Sentiment was strongest in the Post & Telecommunication sector.

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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