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HSBC Russia Services PMI®

Service sector loses growth momentum in May

Key findings:

- Business Activity Index falls for third month running to 51.4
- Employment growth strengthens
- Weakest increase in input prices for over two-and-a-half years

The latest HSBC *PMI*® data compiled by Markit indicated that Russian service sector growth slowed further in May, although an unusually high number of public holidays weighed on business conditions during the month. New business rose at the weakest rate in nine months and inflationary pressures remained subdued. On a more positive note, employment increased at the fastest rate in 2013 so far and future activity expectations improved.

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.

The seasonally adjusted HSBC Russia Services Business Activity Index remained above 50.0 for the thirty-third consecutive month in May, signalling a further increase in services output. That said, the Index declined to 51.4, from 53.0, the lowest level over this sequence and indicative of a weak rate of growth. Anecdotal evidence suggested that the longer-than-usual May holiday period had impacted negatively on workloads during the month.

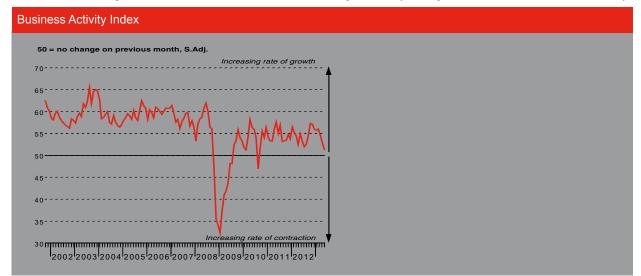
New business rose in May, continuing the trend shown since September 2010. The rate of expansion eased, however, to the weakest since August 2012. Growth of new work at service providers has weakened in four of the first five months of 2013.

The level of outstanding business held at Russian service providers declined further in May. All areas except Transport & Storage recorded lower backlogs. The overall rate of contraction was the slowest in over a year, however.

In contrast to the slowing rate of activity growth, employment in the service sector rose at a faster pace in May. Data signalled the strongest rate of job creation in 2013 so far, and the second-fastest in two years. A number of firms linked recruitment to improving underlying demand and business developments.

The longer-term outlook for business activity improved in May, to the highest since the start of the year. Firms tied positive sentiment to expectations of winning new clients and launching new services, as well as a recovery in the global economy. The degree of positive sentiment nonetheless remained weaker than the long-run survey average.

Inflationary pressures in the Russian services sector remained subdued in May. Average input prices increased at the weakest rate since October 2010. Where average cost burdens rose, this was linked to higher prices for energy, fuel, utilities, labour and rent. Meanwhile, output price inflation remained well below the long-run survey average and was the weakest since February.



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.

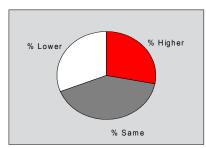




Business Activity Index

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.

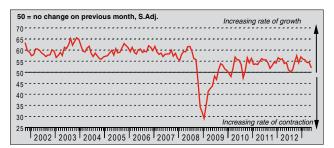


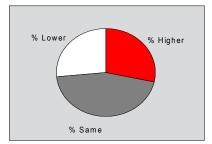


The seasonally adjusted Business Activity Index remained in positive territory in May, but fell for the third month in a row. The latest figure was the lowest in the current 33-month growth sequence, and signalled only a weak increase in Russian service sector output. Higher activity was generally linked to improving demand, although anecdotal evidence suggested that a higher-than-usual number of bank holidays had weighed on activity. Strong growth in Hotels & Restaurants and Transport & Storage was partly offset by declines in all other sectors except 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.



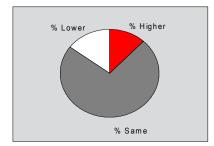


The volume of new business received by Russian service providers rose in May, but the pace of expansion weakened. The seasonally adjusted New Business Index remained above the no-change mark of 50.0 for the thirty-third successive month, but signalled the slowest rate of growth since last August. Firms continued to report improving underlying demand. New business fell in Renting & Business Activities and Other Services and was flat in Financial Intermediation, but rose solidly elsewhere across the services sector.

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.



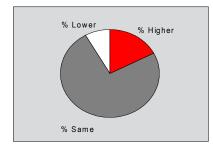


Spare capacity remained evident in May, as signalled by the seasonally adjusted Outstanding Business Index remaining below neutrality. The current sequence of continuous decline now stretches to two-and-a-half years. That said, the rate of backlog depletion was the weakest since April 2012, and only fractionally faster than the historic survey average. The only subsector to record higher outstanding business was Transport & Storage. The sharpest declines were registered in Renting & Business Activities and Post & Telecommunication.

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).

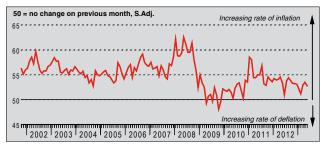




The Russian service sector economy continued to create jobs in May, despite the weakening in activity growth. Employment has risen continuously since November 2010. Moreover, the rate of workforce growth was the fastest in 2013 so far, and stronger than the long-run survey average. Firms linked hiring to improving underlying demand and new business developments. By sub-sector, employment growth was strongest in Post & Telecommunication, followed by 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.

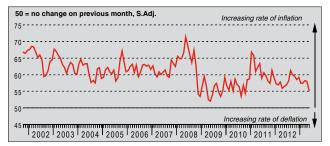




Survey data indicated a further increase in average prices charged by Russian service providers in May. The current sequence of inflation now stretches to three-and-a-half years, with the latest increase mainly linked to higher costs. The rate of inflation weakened to a three-month low, however, and remained much lower than the long-run survey average. Charges rose sharply in Post & Telecommunication, but only marginally 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.



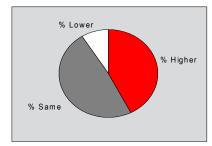


In line with the trend shown throughout the survey history, average input prices paid by Russian service providers rose in May. Sources of upward pressure on costs included utilities, fuel, energy, labour and rents. The seasonally adjusted Input Prices Index signalled the weakest rate of inflation since October 2010. Input price inflation weakened in all subsectors except Hotels & Restaurants. The strongest inflation was seen 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?





Business sentiment among Russian service providers remained positive in May, but weak in the context of historic survey data. The Business Expectations Index improved to a four-month high, but remained below the long-run average of 73.2. Around 43% of survey respondents expect growth of activity at their units over the next 12 months, linked to new clients, company development plans, new services and expectations of global economic recovery. By subsector, expectations were strongest in Other Services, and weakest in Renting & Business Activities.

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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