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HSBC Russia Services PMI®

Service sector activity continues to decline in July

Key findings:

- Services PMI hits lowest level since August 2010
- New business posts marginal growth following June's fall
- Service providers shed staff for first time since October 2010

The downturn in Russian service sector activity continued in July, according to HSBC PMI® survey data compiled by Markit. Activity fell for the second month running, the first back-to-back drop in four years. Moreover, service sector employment fell for the first time since October 2010. Inflationary pressures and the longer-term outlook for activity growth both remained historically weak. The main positive finding from the latest survey was a marginal rise in new business following June's contraction.

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 fell for the eighth time in nine months in July, to 48.7, from 48.8 in June. The latest figure remained below the neutral threshold, and was the lowest since August 2010. That said, the rate of decline was little-changed from June's modest pace. Four sub-sectors registered falling activity, the exceptions being transport & storage and hotels & restaurants.

The volume of incoming new business received by Russian service providers rose in July. That followed a contraction in June for the first time since August 2010. The rate of growth in the latest period was only marginal, however, and there were contractions

in four out of six sub-sectors. Only transport & storage and hotels & restaurants registered higher new business intakes in July.

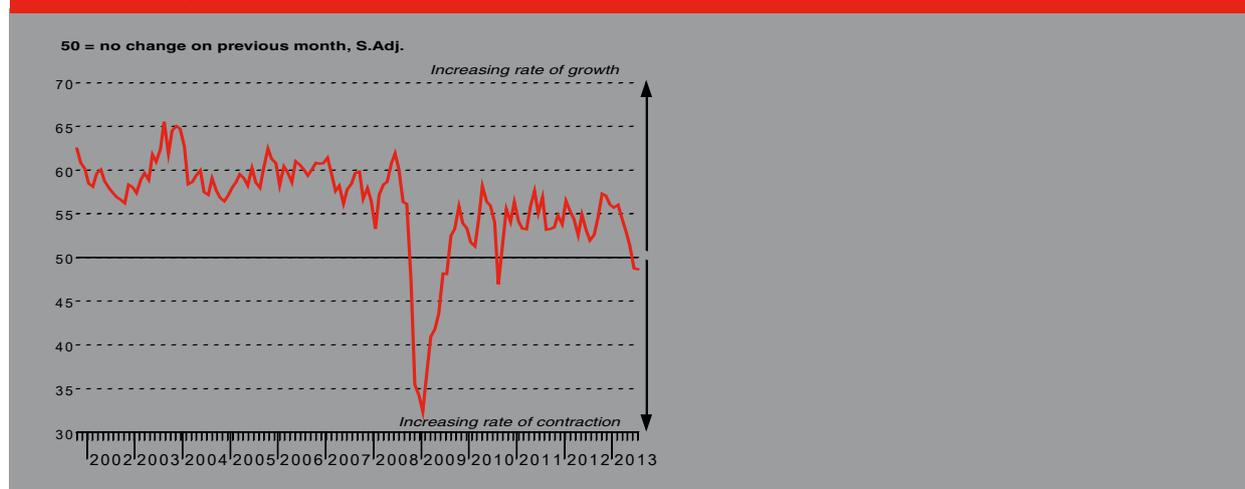
Reflective of weak market conditions, the volume of outstanding business held at Russian service providers declined in July. Furthermore, the rate of contraction accelerated to the fastest since September 2012. All sub-sectors recorded falling backlogs in July except for hotels & restaurants, where a flat trend was registered.

The ongoing decline in business activity impacted on the labour market in July, with employment in the services sector falling for the first time since October 2010. In line with the trends shown for activity and new business, only transport & storage and hotels & restaurants posted hiring growth in July.

Inflationary pressures remained weak in July, with output prices rising at the slowest pace since June 2012. Input price inflation was broadly in line with the trend for 2013 to date, and historically weak. Higher average input prices were linked to energy, fuel, rent, outsourcing and exchange rate movements.

Business expectations also remained historically weak in July. Sentiment was positive overall, but broadly similar to June's 54-month low. Around 37% of survey respondents expect activity growth over the next 12 months, compared with 17% that forecast a decline.

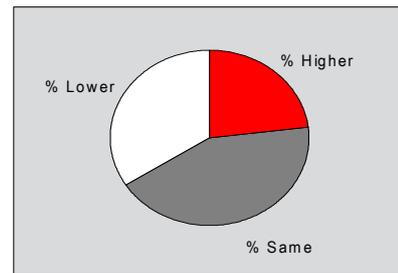
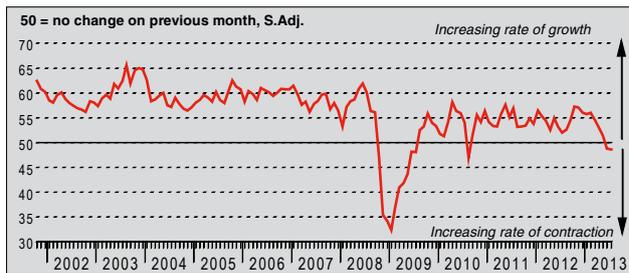
Business Activity Index



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

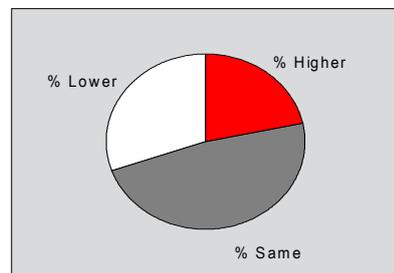
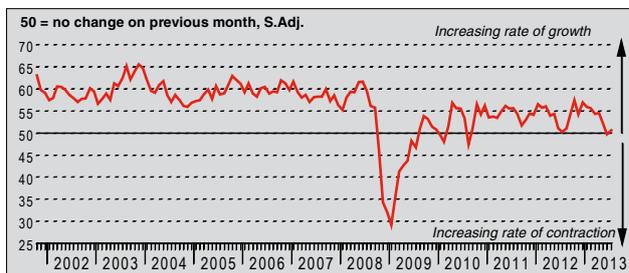
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



The seasonally adjusted Business Activity Index remained below the no-change mark of 50.0 in July, indicating declining Russian service sector output. The rate of decline signalled was little-changed from June's modest pace but still the most marked since August 2010. Latest data also marked the first back-to-back drop in activity in four years. Firms generally reported weak underlying demand. Activity fell in four sub-sectors, led by financial intermediation, while transport & storage and hotels & restaurants both registered growth.

New Business Index

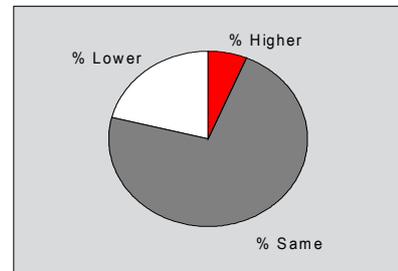
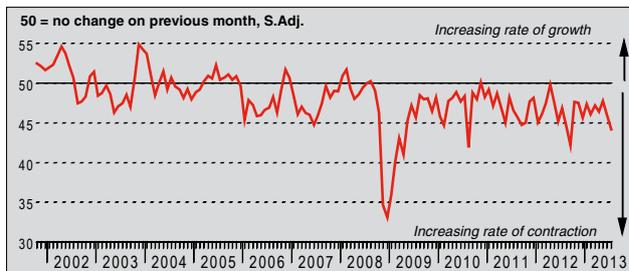
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



The volume of new business received by Russian service providers rose in July, marking a recovery from June's marginal decline. A number of survey respondents linked higher new business to new clients. That said, the seasonally adjusted New Business Index was only slightly above the neutral threshold of 50.0, and indicated a weak rate of expansion. Overall growth was driven by strong increases in the transport & storage and hotels & restaurants sub-sectors, as all other areas registered declines.

Outstanding Business Index

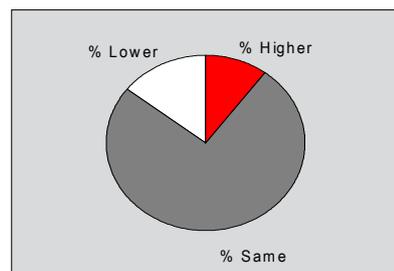
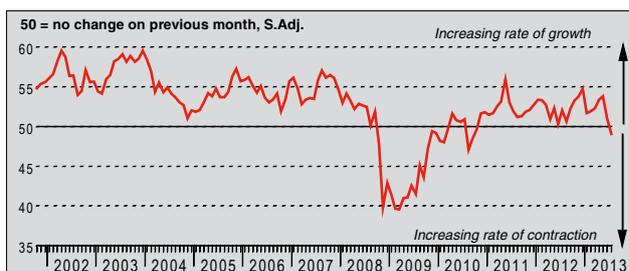
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



Outstanding business in the Russian service sector continued to fall in July, despite the sustained drop in activity and a rise in new work. Moreover, the rate of backlog depletion accelerated, as signalled by a fall in the seasonally adjusted Outstanding Business Index to a ten-month low. Firms reported a lack of funds from clients, low capacity utilisation and improved productivity. Outstanding business declined in all areas except hotels & restaurants, where broadly no change was signalled.

Employment Index

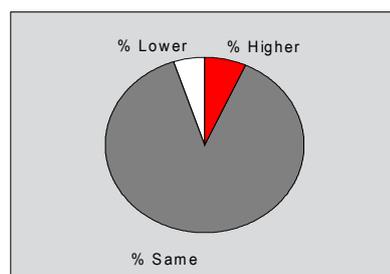
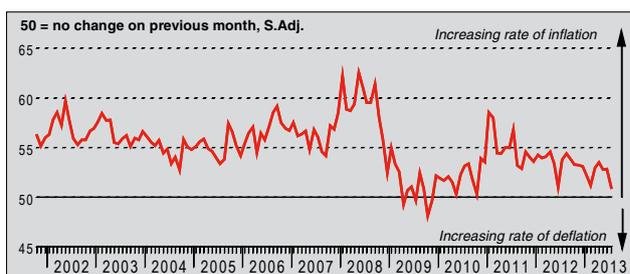
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



Service sector employment in Russia declined in July, ending a 32-month sequence of job creation. Firms linked lower headcounts to falling business activity and pressure to reduce costs. The overall trend of declining workforces was repeated in four sub-sectors, with the steepest rate of job shedding in 'other services', followed by post & telecommunication. Across the service sector as a whole, however, the rate of reduction in employment was only marginal.

Prices Charged Index

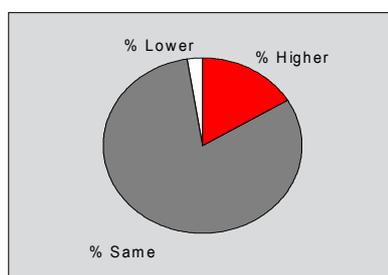
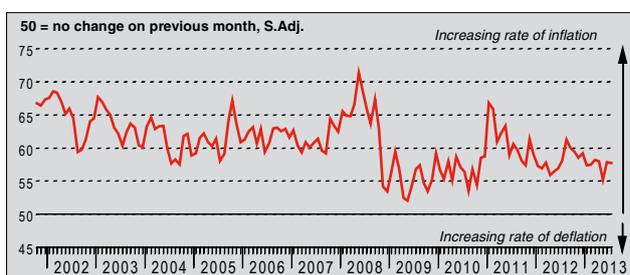
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Prices charged by Russian service providers increased in July, as they have every month since December 2009. Firms reported increasing their prices in line with rising costs. There were also some reports of discounting arising from competitive pressures, however, and the overall rate of inflation in July was the joint-weakest in 33 months. Indeed, four sub-sectors registered lower output prices, the exceptions being transport & storage and hotels & restaurants.

Input Prices Index

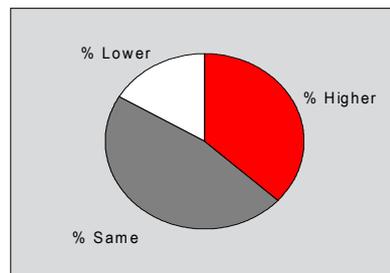
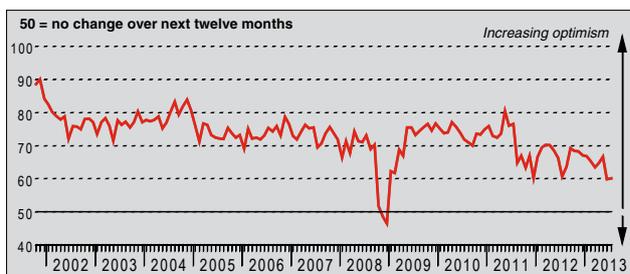
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



Input price inflation in the Russian service sector was maintained in July. The rate of inflation was little-changed from June's pace, and broadly in line with the average over 2013 to date. The seasonally adjusted Input Prices Index remained below its long-run average of 60.9. Anecdotal evidence linked higher input prices to energy, fuel, rents, outsourcing and exchange rate pressures. By sub-sector, input cost inflation was strongest in post & telecommunication and weakest in renting & business activities.

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?



Russian service providers remained confident of activity growth over the next 12 months in the latest survey period, but the strength of sentiment was historically weak. The Business Expectations Index was little-changed from June's 54-month low. Around 37% of firms expect activity growth, linking expansion to business developments and efforts to attract new clients. Business expectations were strongest in financial intermediation, and weakest in post & telecommunication.

Notes on the Data and Method of Presentation

The Russia Services *PMI* covers hotels & restaurants, transport & storage, financial intermediation, renting & business activities, post & telecommunications and other services.

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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