HSBC *Purchasing Managers' Index™* 2013

compiled by markit

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HSBC Russia Services PMI®

Service sector activity grows modestly in August

Key findings:

- Services expands for first time in three months
- New business growth remains weak
- Highest rate of input price inflation in 2013 to date

Russian service sector activity posted a modest increase in August, according to HSBC *PMI*® survey data compiled by Markit. The expansion was the first registered in three months, and reflected a sustained increase in new business. But growth remained historically weak, and the level of outstanding business declined sharply. Meanwhile, input price inflation accelerated to an eight-month high and growth of employment resumed. Service providers were also more optimistic about the long-term outlook for workloads.

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 rose back above the no-change mark of 50.0 in August, having spent the previous two months in negative territory. The latest figure of 51.8, up from 48.7, indicated only a modest expansion in activity, however, and was well below the 12-year historic survey average of 56.2. Growth was registered in three sectors – hotels & restaurants, post & telecommunications and transport & storage – while the sharpest decline was seen in financial intermediation.

The volume of incoming new business received by Russian service providers increased in August, but the rate of expansion was little-changed from July's marginal pace. Where new business increased, this was primarily linked to new clients.

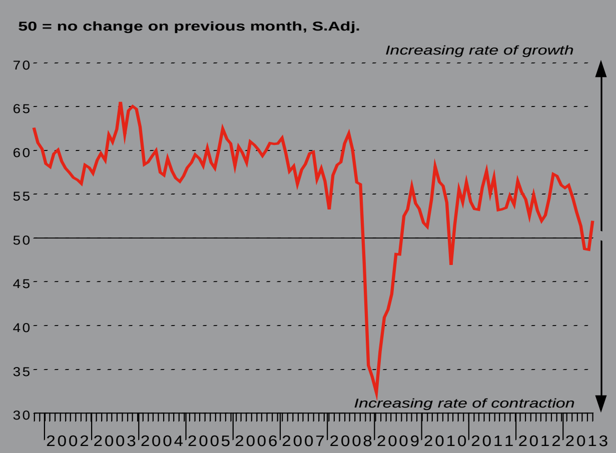
Highlighting relatively subdued demand conditions in the sector, service providers cut outstanding workloads at a marked pace in August. The rate of decline was weaker than in July, but still stronger than in any other period in the past 11 months. Five out of six sectors registered lower levels of outstanding business.

Russian service sector employment rose in August, having declined marginally the previous month. The rate of job creation was the strongest since May, but historically weak. Workforce growth was most prominent in the hotels & restaurants sector.

Inflationary pressure on Russian service sector companies' costs picked up in August, reaching the highest in 2013 so far. Firms linked increased input costs to utilities, fuel, energy, salaries and exchange rates. However, the rate of input price inflation remained weak in the context of historic survey data. The rate at which service providers' charges rose also remained modest.

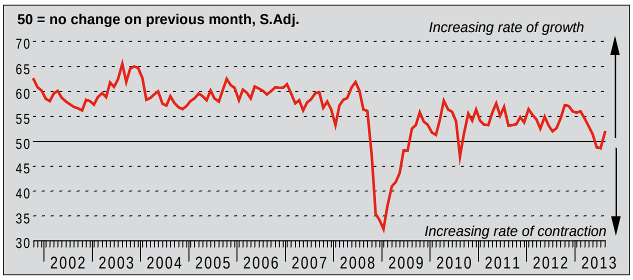
The 12-month outlook for business activity in the Russian service sector strengthened in August. Around 44% of survey respondents forecast growth of activity at their business units over the next year, linked to company developments, new products, new branches and an economic upturn. That said, the degree of positive sentiment remained below the long-run survey average.

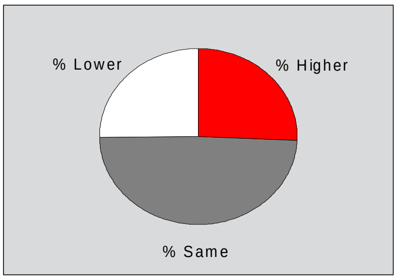
Business Activity Index



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.

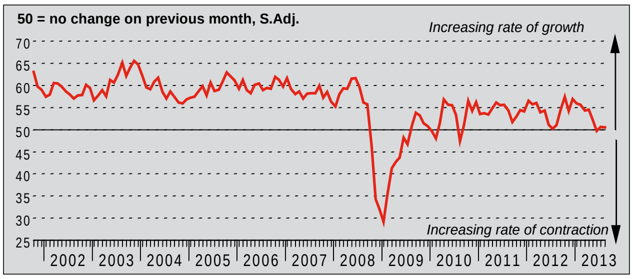


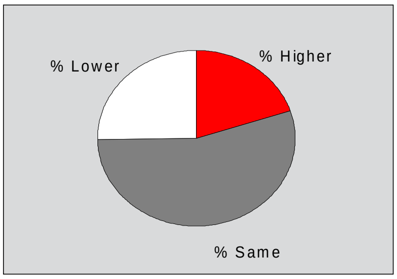


Service sector activity in Russia increased in August. The rate of expansion was only modest, but nevertheless an improvement on the declines registered in June and July. Firms linked growth to a recovery in demand and new clients. By sector, growth was driven by hotels & restaurants, post & telecommunication and transport & storage, with all other sectors registering declines in activity.

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.

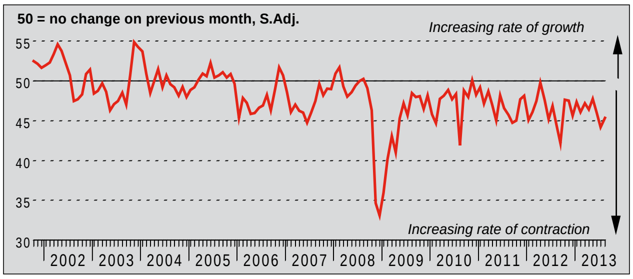


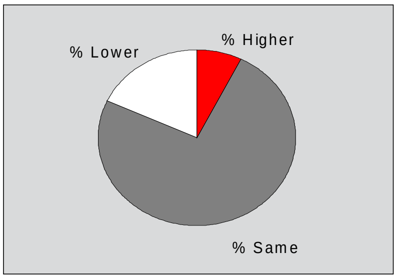


The volume of new business received by Russian service providers increased for the second month running in August. A number of firms reported winning new customers during the month. The sustained growth followed a marginal contraction in June but the seasonally adjusted New Business Index remained only just above the no-change mark of 50.0, indicating a marginal rate of expansion. Moreover, new business fell in three sectors, namely financial intermediation, other services and renting & business activities.

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.

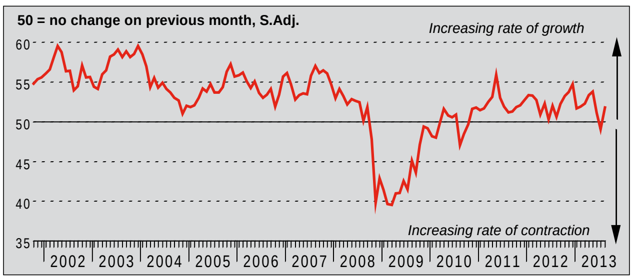


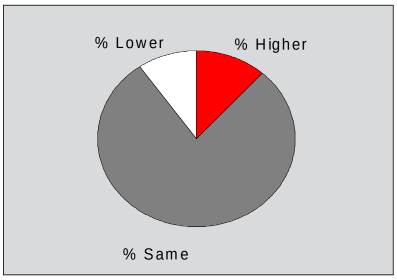


The seasonally adjusted Outstanding Business Index remained well below the no-change mark of 50.0 in August, signalling a sharp decline in incomplete workloads at Russian service providers. The rate of contraction eased since July, but was still the second-strongest in 11 months. Anecdotal evidence pointed to a lack of available funds at clients and increased efficiency. Outstanding business declined in all sectors except transport & storage, where no change 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).

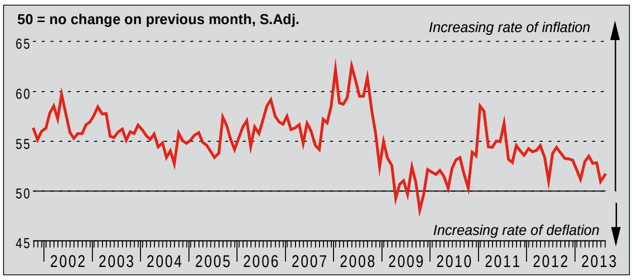


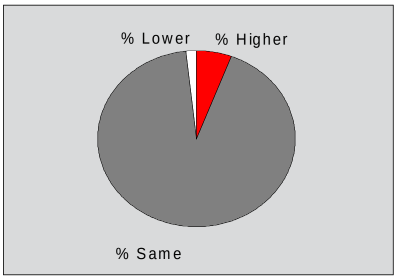


Higher activity at Russian service sector companies generated a rise in employment in August. That followed a slight fall in July, the first round of job shedding since October 2010. Some firms reported that recruitment reflected expanded branch networks. The rate of workforce growth was only modest, however, and weaker than the long-run survey average. Four sectors registered employment growth, led 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.

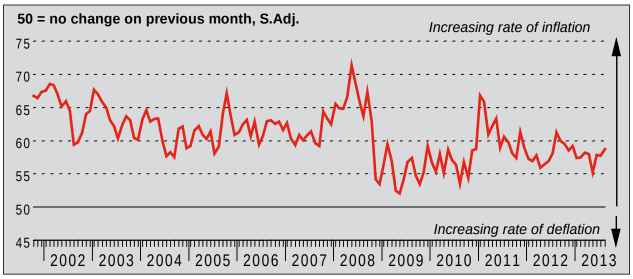


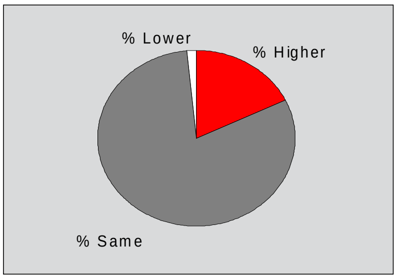


Pricing power at Russian service sector companies remained weak in August. Average prices charged continued to rise at an historically weak rate, albeit one that picked up from July's 13-month low. Only around 6% of survey respondents reported raising their prices during the month, linked mainly to higher utility costs. Charges rose sharply in transport & storage, while the only other sectors to record increases were hotels & restaurants and other services.

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.

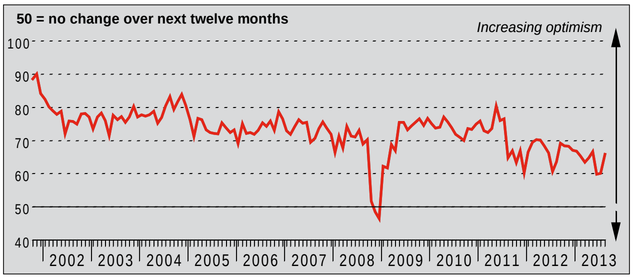


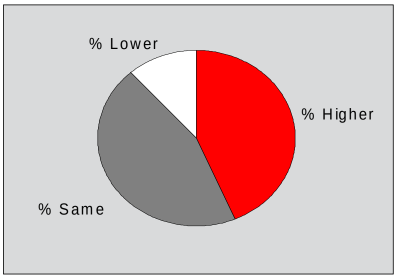


Cost pressures facing Russian service providers strengthened in August. The seasonally adjusted Input Prices Index rose to its highest level in 2013 to date, but remained below its long-run average of 60.9. Anecdotal evidence highlighted rising prices for utilities, fuel, energy and salaries. Firms also reported inflationary pressure arising from the weaker ruble. Input price inflation was strongest in the post & telecommunication sector, 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?





The Business Expectations Index rose sharply in August, signalling a stronger degree of positive sentiment at Russian service providers regarding the 12-month outlook for activity. Expectations were the second-strongest since January, but remained weaker than the long-run survey trend. Firms linked growth expectations to company developments, new products and branches, new clients and a wider economic upturn. Positive sentiment was strongest in financial intermediation.

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.

Warning