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HSBC Russia Services PMI®

Service sector expansion remains weak in September

Key findings:

- Marginal increase in new business leads to subdued rise in activity
- Year-ahead outlook weakens
- Jobs cut for second time in three months

Russian service sector activity continued to rise at only a weak rate in September, according to HSBC PMI® survey data compiled by Markit. The activity trend over the third quarter as a whole was the worst registered since Q2 2009. Moreover, new business growth remained only marginal in September, and the 12-month outlook for activity deteriorated. Employment in the service sector declined for the second time in three months, and firms faced the sharpest increase in input prices since December 2012.

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 the no-change mark of 50.0 in September, having spent June and July in negative territory. The latest figure of 51.5, up from 51.8, indicated only a modest expansion in activity, however, and the quarterly average of 50.7 was the lowest since Q2 2009. In comparison, the index has trended at 56.2 since the series began in October 2001.

Only three out of six sectors covered by the survey registered higher activity in September, including hotels & restaurants, post & telecommunication and transport & storage. Financial

intermediation saw the steepest decline in business activity since August.

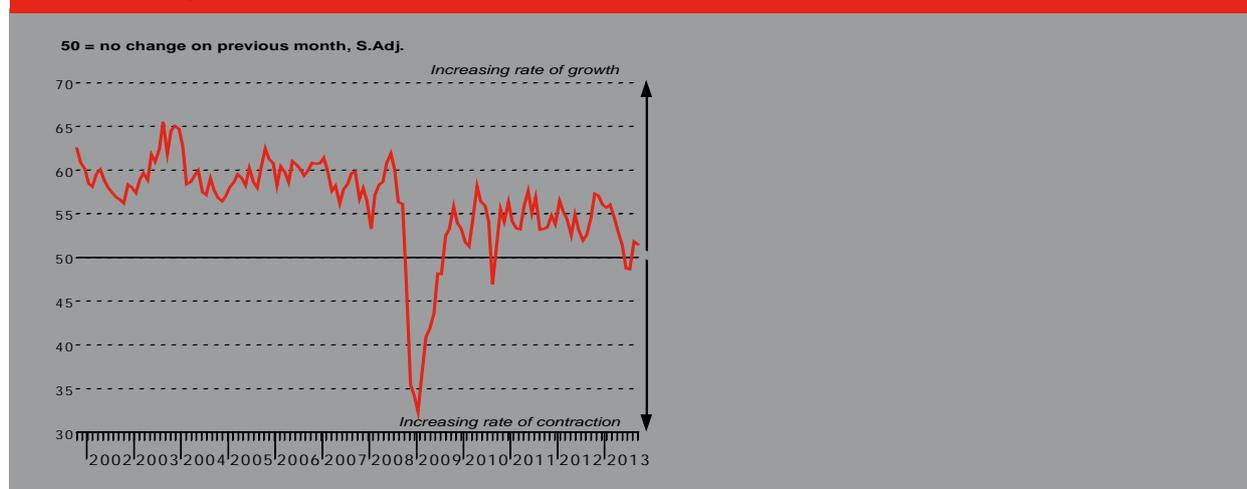
New business growth remained marginal in September, having failed to gain momentum since recovering from June's contraction. Moreover, the overall rise in new work mainly reflected a sharp increase in just one sector – hotels & restaurants. The level of outstanding business meanwhile continued to fall sharply, with all six areas registering declines.

The 12-month outlook for activity among Russian service providers weakened in September, with only 37% of firms expecting growth over the coming year, down from 44% in August. The overall degree of positive sentiment was among the weakest registered over the last five years.

Reflecting the ongoing weakness in new business inflows and deteriorating business outlook, service providers in Russia shed staff on average in September. The latest decline in employment was the second in the past three months, although the rate of contraction was marginal.

Inflationary pressure on input prices strengthened further in September. The rate of input cost inflation increased to a nine-month high, and was just short of the long-run survey average. The main sources of rising costs were utility bills and fuel. In contrast, the rate of inflation in prices charged by service providers remained historically weak.

Business Activity Index

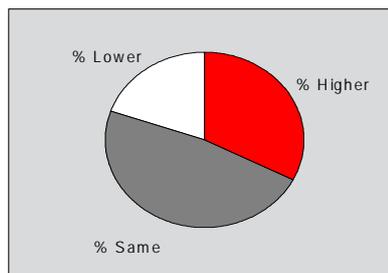
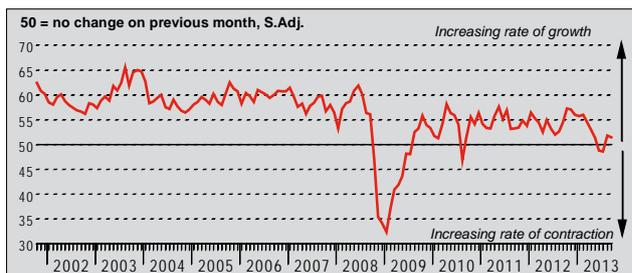


The survey uses a methodology identical to the HSBC Russia Manufacturing PMI®. The survey uses a panel of regularly participating companies to monitor trends in business conditions in the private sector services economy. The panel has been carefully selected to accurately replicate the true structure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

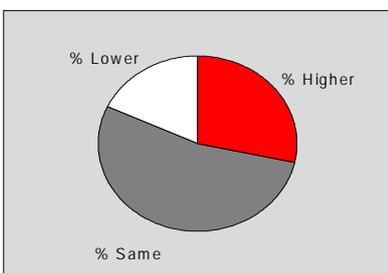
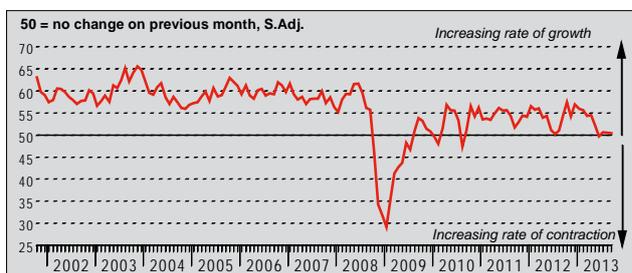
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



Latest data signalled a second successive monthly rise in activity at Russian service providers in September, following declines in June and July. Growth was linked to economic recovery, new clients and rising new orders. That said, the rate of expansion remained weak, with the seasonally adjusted Business Activity Index well below its long-run average of 56.2. Only three sectors registered growth, including hotels & restaurants, post & telecommunication and transport & storage. The fastest decline was registered in financial intermediation.

New Business Index

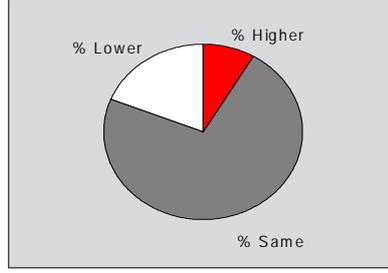
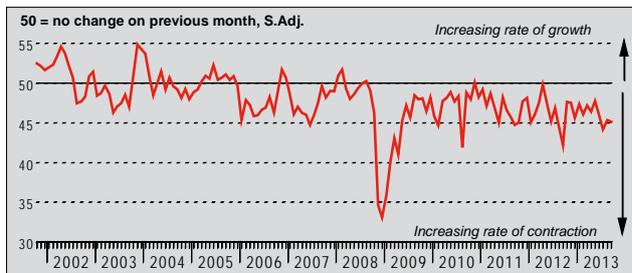
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



The volume of new business received by Russian service providers rose for the third month running in September. In line with the trend over this sequence, however, the rate of expansion remained marginal. New business wins were partly linked to new regional branches and marketing campaigns. Sector data signalled that growth was largely centred on hotels & restaurants, while the only other sector to record expansion – post & telecommunication – showed only a marginal increase.

Outstanding Business Index

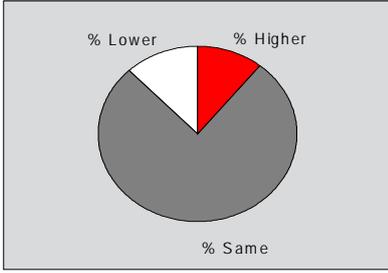
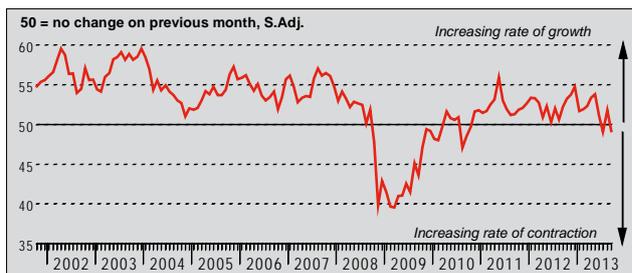
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



Outstanding business held in the Russian service sector continued to fall sharply in September, reflecting lacklustre inflows of incoming new work. The average index reading for the third quarter was the second-lowest since Q2 2009. The level of incomplete work has declined every month since December 2010. For the first time since February 2012, backlogs contracted in all six sub-sectors, led by post & telecommunication.

Employment Index

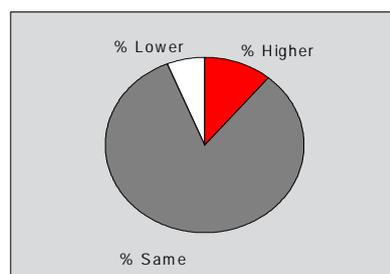
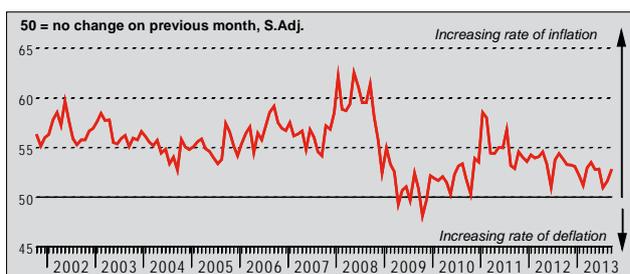
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



Service sector employment in Russia declined in September, having seen a brief resumption in growth one month previously. The seasonally adjusted Employment Index posted below the no-change mark of 50.0 for the second time in three months, but signalled only a marginal rate of job shedding. Four sub-sectors posted lower staffing levels in September, with the sharpest fall registered in 'other services'.

Prices Charged Index

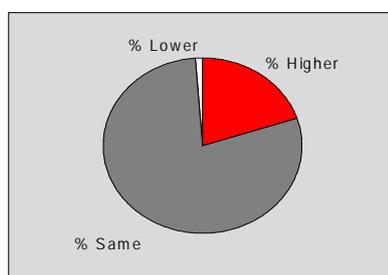
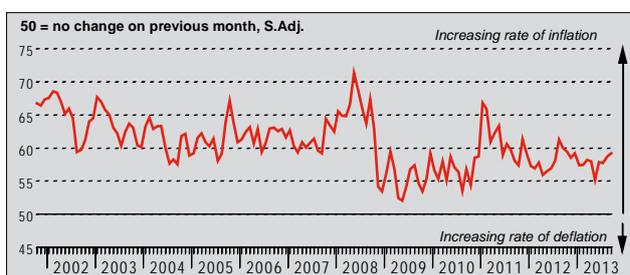
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Prices charged by Russian service providers rose in September, and at the fastest rate in three months. Firms linked higher tariffs to increased input costs, especially the effect of the weaker ruble on export prices. That said, the rate of inflation remained historically weak, with the seasonally adjusted Prices Charged Index well below its long-run average of 55.1. Output prices increased in five sectors, with the strongest rise seen in transport & storage. The only sector to record a decline was financial intermediation.

Input Prices Index

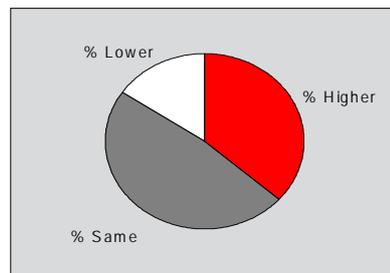
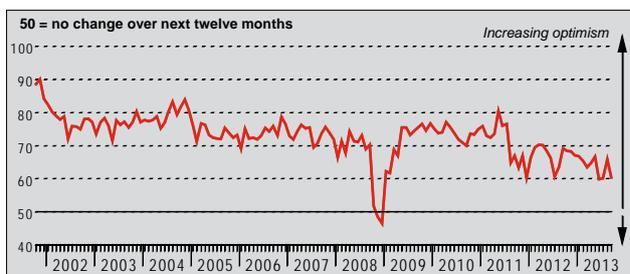
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



Average input prices paid by Russian service sector companies rose at the fastest rate in nine months in September. Moreover, the seasonally adjusted Input Prices Index was only slightly below its long-run average of 60.9. The main reported factors underpinning rising cost pressures were fuel and utility bills. The steepest increases in input prices were registered in post & telecommunication, transport & storage and financial intermediation 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?



The 12-month outlook for service sector activity remained positive in September, but weakened since the previous month. The Business Expectations Index fell from August's three-month high, and was at one of the lowest levels of the past five years. Around 37% of firms expect activity growth, down from 44% in August. Firms linked expected gains to planned investments and new business wins. Sentiment was strongest in financial intermediation, and weakest in renting & business activities.

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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