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HSBC Russia Services PMI®

Service sector expansion picks up but remains relatively subdued

Key findings:

- Activity growth improves to six-month high, but still modest
- Employment falls further
- Services providers report weakest outlook since December 2008

Russian service sector growth remained lacklustre in October despite improving since September, according to HSBC PMI® survey data compiled by Markit. Activity rose at the fastest rate since April, as did new business receipts, but growth remained historically weak and the 12-month outlook was the lowest registered since December 2008. Service providers shed staff for the third time in four months, while input price inflation accelerated to a 13-month high.

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 signalled growth of activity for the third month running in October, following declines in June and July. The Index improved to a six-month high of 52.5, from 51.5, but remained well below its long-run average of 56.2. The Index has averaged 52.4 over the first ten months of 2013, lower than the annual trends for every year of the survey history except for 2009 (46.8).

Overall growth of activity was supported by a rise in the level of incoming new business. In line with the trend for output, the rate of expansion in new contracts was the fastest since

April, but historically weak. New business fell in the transport & storage and post & telecommunication sectors, but rose sharply in hotels & restaurants.

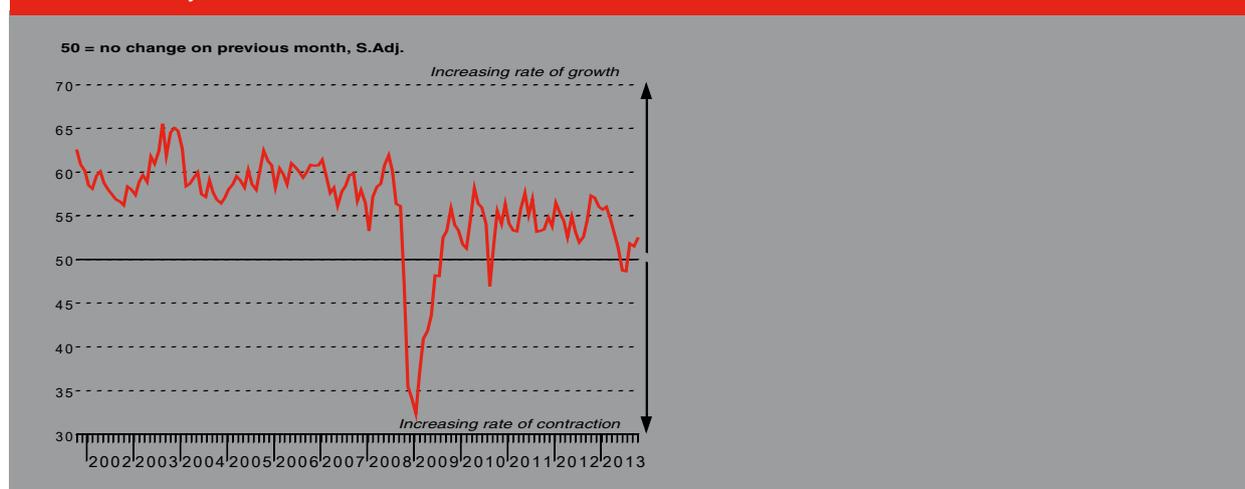
The faster rise in incoming new business led to a slower decline in outstanding work, but backlogs at service providers have nevertheless now declined continuously for nearly three years. Four sub-sectors registered falling backlogs, namely post & telecommunication, transport & storage, hotels & restaurants and other services.

Service sector employment in Russia declined for the third time in four months in October, reflecting the recent weak trend in workloads. That said, the rate of job shedding eased since September, and was only marginal.

The 12-month outlook for activity held by service providers in October was weaker than in any survey period other than the final three months of 2008. Only around 30% of firms expect activity growth over the coming year, linked mainly to investments in new products and expansion into new markets.

Average input prices paid by Russian service providers rose at the fastest rate since September 2012. The rate of inflation was only slightly slower than the long-run survey average. In contrast, prices charged for services rose only modestly, and at a rate that remained historically weak.

Business Activity Index

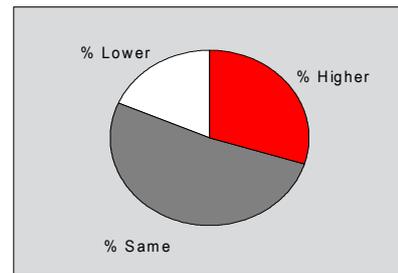
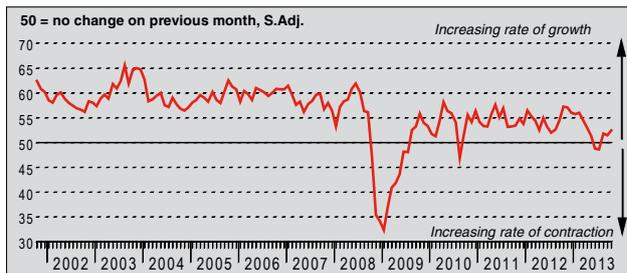


The survey uses a methodology identical to the HSBC Russia Manufacturing PMI®. The survey uses a panel of regularly participating companies to monitor trends in business conditions in the private sector services economy. The panel has been carefully selected to accurately replicate the true structure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

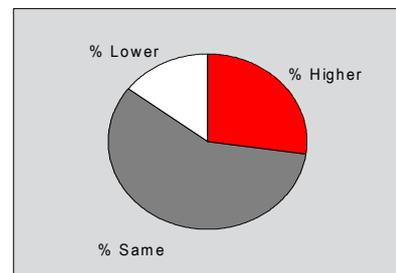
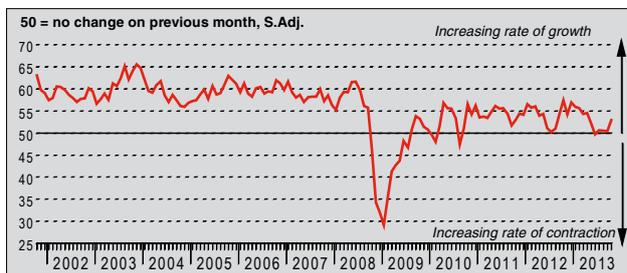
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



Activity in the Russian service sector rose for the third month running in October, and at a faster rate than one month previously. Firms mainly linked higher output to improving demand and new clients. The seasonally adjusted Business Activity Index improved to a six-month high but remained well below its long-run average of 56.2, signalling relatively muted growth. Activity rose in four sub-sectors, led by hotels & restaurants. A decline was registered in post & telecommunication, while transport & storage registered no change in activity since September.

New Business Index

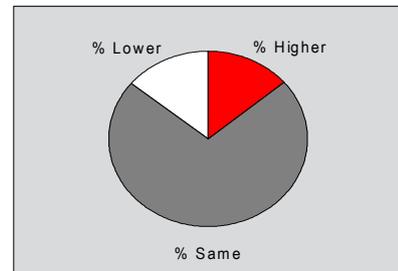
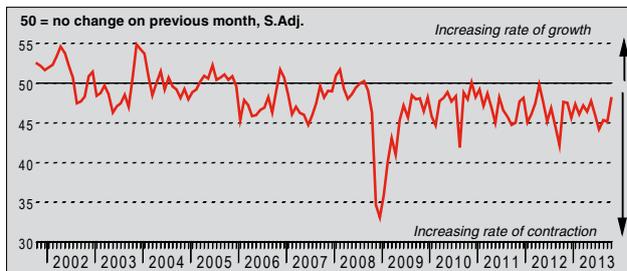
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



The rate of new business growth at Russian service providers strengthened in October to the fastest pace since April. Firms linked new business wins to new customers, expanded product ranges and a recovery in market conditions. That said, the rate of expansion remained weak in the context of historic survey data. Four sub-sectors registered higher intakes of new work, with the fastest growth seen in hotels & restaurants. Declines were signalled in transport & storage and post & telecommunication.

Outstanding Business Index

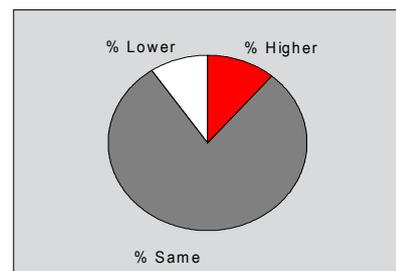
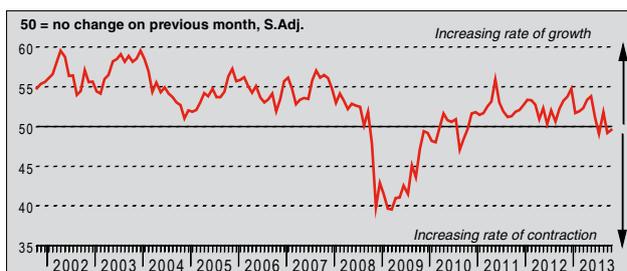
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



The level of outstanding business in the Russian service sector declined further in October, extending the current sequence of depletion to nearly three years. The rate of contraction slowed, however, to a moderate pace that was the weakest since April 2012. The seasonally adjusted Outstanding Business Index was broadly in line with its long-run average during the latest period. Lower backlogs were indicated in four sub-sectors, the exceptions being renting & business activities and financial intermediation.

Employment Index

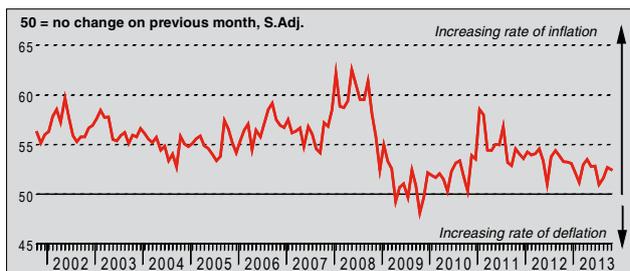
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



Service providers in Russia cut workforces on average in October. The seasonally adjusted Employment Index registered below the no-change mark of 50.0 for the third time in four months, but signalled only a marginal rate of job shedding that eased slightly since September. Firms mainly attributed lower headcounts to weak business volumes and efforts to cut costs. Workforces declined in four sub-sectors, with the fastest reduction seen in transport & storage. Higher employment was seen in post & telecommunication and financial intermediation.

Prices Charged Index

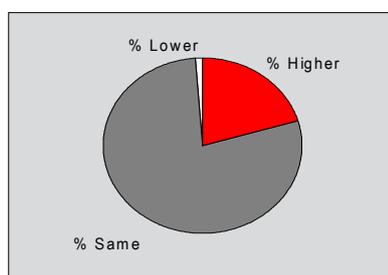
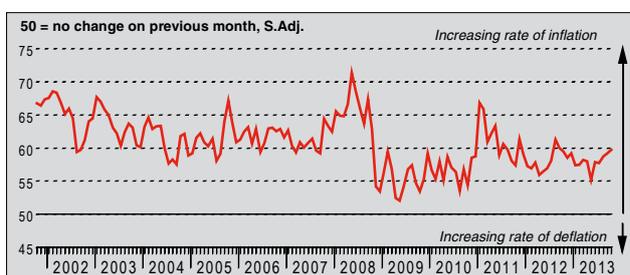
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Prices charged by service sector companies were raised on average in October, continuing the trend shown since December 2009. Many survey respondents reported that higher charges were planned and linked to wider inflation. The rate of inflation remained only modest, however, and weaker than the average over the 12-year survey history. As was the case in September, five sub-sectors registered higher charges, the exception being financial intermediation. The sharpest increase was seen in post & telecommunication.

Input Prices Index

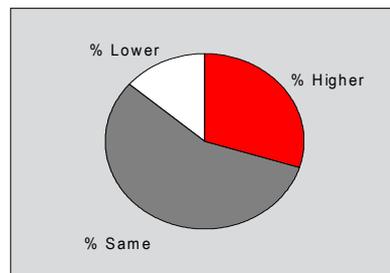
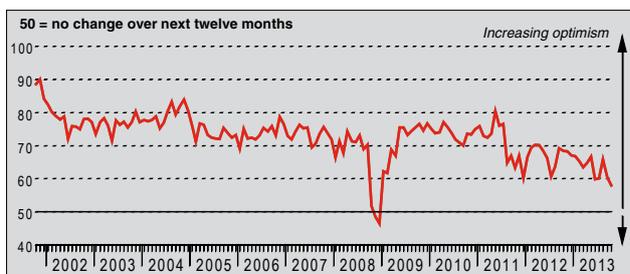
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



The rate of inflation of average input prices at Russian service providers accelerated for the third successive month in October, to the highest since September 2012. Anecdotal evidence linked higher cost pressures to fuel, salaries, advertising and rents. Around one-in-five firms reported higher input prices, compared with only 1% that recorded a reduction. By sub-sector, input price inflation was strongest in transport & storage, and weakest in hotels & restaurants.

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 business activity in the Russian service sector deteriorated in October. The Business Expectations Index fell to its lowest level since December 2008. Only around 30% of firms expect activity to be higher over the next 12 months, linked to investment in new services, new clients and expansion into new markets. By sub-sector, renting & business activities and hotels & restaurants held the weakest outlooks for activity.

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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