

# HSBC Russia Services PMI®

## Russian private sector output contracts in July

### Key points

- Composite Output Index signals decline in private sector output, falling to 48.7
- Services Business Activity Index also registers 48.7 (35-month low)
- Private sector employment falls

### Summary

Russian PMI® survey data compiled by Markit for HSBC signalled falling private sector activity in July, and a broad-based downturn across the manufacturing and services sectors. The Composite Output Index fell below the no-change mark of 50.0 for the first time since August 2010, and the latest figure of 48.7 was the lowest since July 2009.

The downturn in Russian service sector activity continued in July. The HSBC Russia Services Business Activity Index fell to 48.7, from 48.8 in June. The latest figure was the lowest since August 2010. Four sub-sectors registered falling activity, the exceptions being transport & storage and hotels & restaurants. Meanwhile, the equivalent Manufacturing Output Index also posted 48.7, the first negative reading since July 2009.

New business growth slowed to a marginal pace in July. The overall increase reflected rising new business received by service providers following a contraction in June. Growth was only marginal, however, and there were contractions in four out of six services sub-sectors. Only transport & storage and hotels & restaurants registered higher new business intakes in July. Meanwhile, manufacturing new orders stagnated.

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, and was accompanied by a fifth successive monthly drop in manufacturing backlogs.

The decline in activity impacted on the labour market in July, with employment in the private sector falling for the first time since September 2010. Services jobs fell for the first time since October 2010, while manufacturing employment fell for the eighth time in nine months.

Inflationary pressures remained weak in July, with output prices rising at the slowest pace since February. Input price inflation accelerated to a seven-month high, but remained historically weak. Higher average input prices were linked to energy, fuel, rent, outsourcing and exchange rate movements.

### Comment

Commenting on the Russia Services PMI® survey, Alexander Morozov, Chief Economist (Russia and CIS) at HSBC, said:

*"Like a duet of synchronised springboard divers, output in services and manufacturing dove in unison at identical rates in July, the HSBC Russia Composite PMI survey revealed. Apparently, this kind of diving is not the one that can cheer anybody. In essence, it appears that the Russian economy has lost its growth engines, with neither manufacturing nor services being able to sustain overall economic growth alone anymore."*

*"In the service sector, only transport & storage and hotels & restaurants, two out of six sub-sectors, managed to sustain positive growth dynamics in July. Importantly, output price growth in services has eased to a low level while the contracting sub-sectors have lost pricing power and had to reduce output prices. This signals the transmission of contracting business activity into deflationary pressures in these sectors."*

*"The July PMI surveys are very worrisome as they clearly point to a sharp rise in downside risks for economic growth in Russia. Of course, the robust recovery in the crops sector this year is capable of temporarily improving overall GDP dynamics from July, but it is not able to reverse the negative growth trend that has emerged in the economy of late."*

*"It is a combination of cyclical and structural factors that led the Russian economy into recessionary territory in July, we think. Lower global commodity prices and weaker global demand for commodities weigh on the Russian export sector and windfall revenues from commodity exports that are spread across the whole economy. This is a cyclical thing, but it may take quarters or years for a recovery in global commodity demand. The cyclical sluggishness can be partially offset by orthodox macroeconomic policies. Besides, Russian companies have little willingness to expand their fixed investment programs. This is a structural thing, which should become the structural policy focus and top the policy agenda faster than has been the case so far."*

### Historical Overview



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### Notes to Editors:

The HSBC Russia Services PMI is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 300 private service sector companies. The panel has been carefully selected to accurately replicate the true structure of the services economy. The HSBC Russia Composite PMI is a weighted average of the Manufacturing Output Index and the Services Business Activity Index, and is based on original survey data collected from a representative panel of over 600 companies based in the Russian manufacturing and service sectors.

Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

The Purchasing Managers' Index (PMI) survey methodology has developed an outstanding reputation for providing the most up-to-date possible indication of what is really happening in the private sector economy by tracking variables such as sales, employment, inventories and prices. The indices are widely used by businesses, governments and economic analysts in financial institutions to help better understand business conditions and guide corporate and investment strategy. In particular, central banks in many countries use the data to help make interest rate decisions. PMI surveys are the first indicators of economic conditions published each month and are therefore available well ahead of comparable data produced by government bodies.

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. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact [economics@markit.com](mailto:economics@markit.com).

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*Purchasing Managers' Index*<sup>™</sup> (*PMI*<sup>®</sup>) surveys are now available for 32 countries and also for key regions including the Eurozone. They are the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to [www.markit.com/economics](http://www.markit.com/economics)

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