

HSBC Russia Services PMI®

Russian output growth remains weak

Summary

Russian service sector activity continued to rise at only a weak rate in September, according to HSBC PMI® survey data compiled by Markit. Combined with a marginal increase in manufacturing output, private sector growth remained weak. The HSBC Russia Composite Output Index was little-changed at 51.2, from 51.4 in August.

The 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, down 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.

Services 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. Manufacturing new order growth meanwhile slowed to near-stagnation.

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. Manufacturers shed jobs for the tenth time in 11 months, and the combined workforce of both sectors fell for the third month running.

Inflationary pressure on service providers' 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 manufacturing input prices remained historically weak.

Comment

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

"The HSBC Russia Services & Composite PMI survey confirmed that the Russian economy was growing below its potential and will likely continue to accumulate a negative output gap in the coming months. This was the key finding of the earlier-released Manufacturing PMI survey too. If Russia's GDP keeps growing at September's rate, it will expand by no more than 1.5% during the next 12 months, on our estimates derived from PMI time series data.

"Structurally, the growth story looks more vulnerable in September than one month before. Growth of both output and new business (including new export orders) eased, while cost inflation edged up. Reflecting less confidence in business development, business expectations in services have declined to cyclical lows. On the back on this, labour shedding is getting stronger momentum across both manufacturing and services. As such, this development on the labour market is not bad at all, as it signals an improvement in productivity and efficiency in the economy in the softening yet still tight labour market. However, efficiency gains will pay back only in the medium-term while the softer labour market dents consumer confidence and demand – the key driver of Russia's economic growth these days."

Key points

- Composite Output Index little changed at 51.2
- Services activity growth remains subdued
- Private sector employment declines for third month running

Historical Overview



For further information, please contact:

HSBC in Russia

Julia Molchanova
Telephone + 7 495 721 1515
Email julia.molchanova@hsbc.com

Markit

Trevor Balchin, Senior Economist
Telephone +44-1491-461-065
Email trevor.balchin@markit.com

Caroline Lumley, Corporate Communications
Telephone +44-20-7260-2047
Mobile +44-7815-812-162
Email caroline.lumley@markit.com

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.

HSBC:

HSBC is one of the world's largest banking and financial services organisations. With around 6,600 offices in both established and faster-growing markets, we aim to be where the growth is, connecting customers to opportunities, enabling businesses to thrive and economies to prosper, and ultimately helping people to fulfil their hopes and realise their ambitions.

We serve around 55 million customers through our four global businesses: Retail Banking and Wealth Management, Commercial Banking, Global Banking and Markets, and Global Private Banking. Our network covers 80 countries and territories in six geographical regions: Europe, Hong Kong, Rest of Asia-Pacific, Middle East and North Africa, North America and Latin America. Our aim is to be acknowledged as the world's leading international bank.

Listed on the London, Hong Kong, New York, Paris and Bermuda stock exchanges, shares in HSBC Holdings plc are held by about 216,000 shareholders in 130 countries and territories.

About Markit:

Markit is a leading, global financial information services company with over 3,000 employees. The company provides independent data, valuations and trade processing across all asset classes in order to enhance transparency, reduce risk and improve operational efficiency. Its client base includes the most significant institutional participants in the financial market place. For more information please see www.markit.com

About PMIs:

Purchasing Managers' Index[™] (*PMI*[®]) 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

The intellectual property rights to the HSBC Russia Services and Composite *PMI*[®] provided herein is owned by Markit Economics Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. *Purchasing Managers' Index*[™] and *PMI*[®] are trade marks of Markit Economics Limited, HSBC use the above marks under license. Markit and the Markit logo are registered trade marks of Markit Group Limited.

The HSBC Group, HSBC means HSBC Holdings plc, the company established in accordance with and regulated by the laws of England and Wales, and/or HSBC Bank plc, the Bank established in accordance with and regulated by the laws of England and Wales, and every company that is a member of the group, controlled by this Bank. OOO HSBC Bank (RR) («Bank», «HSBC in Russia»). General license issued by the Bank of Russia №3290. 2 Paveletskaya Square, Building 2, Moscow 115054 Russia.