

# HSBC Russia Services PMI®

## Private sector downturn intensifies as inflationary pressures build

### Key points

- Composite Output Index drops to six-month low of 47.6
- Services output and new business both fall at strongest rates since May 2009
- Input price inflation at 45-month high

### Summary

The Russian private sector experienced a stronger fall in activity in November and rising inflationary pressures, according to PMI® survey data from HSBC and Markit. Manufacturing output rose at a faster pace, but services business activity fell at the strongest rate since May 2009. Overall input price inflation was the highest in nearly four years, with manufacturers seeing the steepest rate of input cost inflation in 16 years. Service providers registered overall pessimism with regard to the 12-month outlook for activity for the first time since December 2008.

The headline HSBC Russia Composite Output Index, a single-figure measure designed to track changes in total Russian private sector activity compared with one month previously, fell to 47.6 in November, from 49.1 in October, indicating the sharpest fall in activity since May. It was the sixth negative reading of 2014 so far.

The HSBC Russia Services Business Activity Index fell to a five-and-a-half year low of 44.5 in November, indicating a steep contraction in Russian service sector output. Manufacturing output, in contrast, rose at the strongest rate since July.

Service providers linked lower activity to worsening demand, the impact of sanctions, the weakening ruble exchange rate, political uncertainty and a weak investment climate. The volume of new business declined for the third month running, and at the fastest rate since May 2009. Manufacturing new orders rose further, but new export business continued to decline.

Survey data highlighted a worsening outlook for the service sector economy. For the first time in nearly six years, a higher proportion of firms expect activity at their units to decline over the next 12 months than those forecasting growth. A negative outlook had previously been registered only twice since the survey began in mid-2001, in November and December 2008. Around 31% of firms expect activity to contract, linked to an expected economic slowdown, potential credit and currency crises and the impact of sanctions.

Employment in the private sector declined for the seventeenth month running in November. Moreover, the rate of job shedding accelerated to the fastest since September 2009.

Input price inflation at private sector firms accelerated to a 45-month record in November. Notably, manufacturers' input prices rose at the fastest rate since October 1998, heavily linked to the weak ruble. Meanwhile, prices charged for goods and services rose at the fastest rate since March 2011.

### Comment

Commenting on the Russia Services PMI® survey, Alexander Morozov, Chief Economist Russia, CIS & The Baltics at HSBC, said:

*"The Russian economy accelerated its contraction last month, the November HSBC Russia Services and Composite PMI revealed. A deep output fall in services has overshadowed stronger performance in manufacturing, with the gap in growth momentum between the two sectors widening significantly.*

*"Why? Manufacturing is the so-called tradable sector and gets benefits from the significant rouble weakening in both nominal and real terms. In contrast, most services are so-called non-tradable sectors. They do not win from currency depreciation, but lose from a faster price growth that accompanies the depreciation and erodes wages, incomes and profits. Indeed, costs and output prices inflation increased markedly in services last month. In such circumstances manufacturing is a poor indicator of the overall trend in the Russian economy, especially if we account for the continuing decline in export demand for manufactured goods that once again proves to be inelastic to exchange rate movements.*

*"Business conditions in services will likely continue getting worse in the coming months, we think. Business expectations in the service sector are gloomy and comparable to only those that were recorded during the worst days of the 2008-09 crisis. This time expectations fell due to the on-going slack in the economy, weak currency, political uncertainty and sanctions. These factors will unlikely improve fast.*

*"Summing up, the PMI survey found the Russian economy risking not only prolonged, but deep recession. We expect 1.5% GDP decline in 2015, but are prepared to see even deeper decline if current negative trends revealed by the PMI survey continue."*

### 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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