

HSBC Russia Services PMI®

Russian private sector output falls in January

Summary

Russia's private sector economy contracted in January even after accounting for strong seasonal factors, according to HSBC PMI® survey data compiled by Markit. Services activity barely increased during the month and manufacturing output declined. Underlining the weakness of the sector, employment across both sectors was cut at the strongest rate since October 2009.

The seasonally adjusted HSBC Russia Services Business Activity Index remained above the no-change mark of 50.0 for the sixth month running in January, but the latest figure of 50.2 signalled a near-stagnation in growth of total services output. The equivalent Manufacturing Output Index declined to 48.5, resulting in the Composite Output Index slipping into contraction territory at 49.6. This signalled the first reduction in private sector output since July 2013.

Weighing on overall growth of the service sector in January were sharp contractions in activity in the transport & storage and post & telecommunication sectors. Financial intermediation, in contrast, registered a marked increase.

The near-stagnation in growth of services activity stemmed mainly from a further easing in the rate of new business growth. New workloads at Russian service providers increased only fractionally in January, while manufacturing new orders declined for the second month running.

With a lack of pressure from new business inflows on capacity, the volume of outstanding work in the service sector was little-changed from December. Backlogs have not risen since November 2010. Meanwhile, manufacturing backlogs fell for the eleventh month running, and at a marked pace.

Russian service providers opted to cut staff, on average, in January. The current sequence of job shedding was extended to five months, and the rate of decline in the latest period was the fastest since August 2010 (when the sector was disrupted by extremely hot weather). Manufacturing jobs declined for the fourteenth time in 15 months, and the overall rate of contraction across both sectors was the fastest since October 2009.

The rates of input and output price inflation in the service sector both eased in January, to eight- and six-month lows respectively. Moreover, the extents to which input prices and charges rose remained weak in the context of historic survey data. Manufacturing input price inflation also weakened, although factory gate prices increased at the strongest pace in 15 months.

Key points

- Composite Output Index posts 49.6
- Service sector stagnates and manufacturing contracts
- Employment falls at strongest rate since October 2009

Comment

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

"The Russian economy contracted output in seasonally-adjusted terms in January, the HSBC Russia Services & Composite PMI survey revealed. Service providers reported just a marginal expansion of business activity that was insufficient to offset output drop in manufacturing. Of course, due to small amount of business days, January data are usually more volatile than data on other months. Yet, taken in the context of preceding monthly time series, January PMI Indexes just confirm that the downward trend in economic activity growth in Russia has returned. It was sufficient to put the economy at a risk of recession. It looks like the Russian economy has not come back from the holiday season.

"The PMI time series show that the Russian economy had contracted briefly for one month, in July 2013. After that economic growth resumed. This time risks that economic growth may not come back soon appear higher, taking into account the negative trend line. Besides, fast RUB weakening in January could negatively affect consumer confidence and business activity while possible gains from import substitution activities will unlikely emerge soon.

"So, we observe very weak start of the year in Russia, with increased risks of stagnation and recession."

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.

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