

HSBC Russia Services PMI®

Private sector output falls at fastest pace since May 2009

Summary

The Russian private sector economy continued to contract in January, according to PMI® survey data from HSBC and Markit. Total business activity declined at the fastest rate since May 2009, and the rate of job shedding was the fastest in five-and-a-half years. Input price inflation eased from December's 79-month record, but remained substantial, while output price inflation hit a new record high.

The seasonally adjusted HSBC Russia Composite Output Index registered below 50.0 for the fourth month running in January, indicating an ongoing contraction in Russian private sector output. Moreover, the latest reading of 45.6, down from 47.2 in December, signalled the fastest decline since May 2009. Services activity (43.9) and manufacturing output (48.9) both fell during the latest period.

The latest survey data signalled a further reduction in the volume of incoming new business received by Russian service providers. New contracts have fallen continuously since last September, and the rate of decline remained sharp in January despite slowing to a four-month low. Sector data signalled marked declines in hotels & restaurants and transport & storage. Declining inflows of new business were linked by panellists to a weakening economy, the ruble crisis and higher interest rates. Manufacturing new orders fell for the second month running, and at the fastest rate since last April.

Linked to a lack of incoming new contracts, outstanding business in the Russian service sector continued to fall in January. The rate of backlog depletion remained sharp overall, despite easing to the slowest since last July. Manufacturing backlogs fell at the strongest rate since January 2009.

Weak business conditions were underlined by a further sharp fall in employment in January. Overall private sector employment declined at the fastest rate since July 2009.

Input price inflation remained strong in January, despite easing from December's 79-month high. Firms again linked cost pressures to the ruble crisis as well as higher rents, fuel costs and interest rates. Meanwhile, prices charged for goods and services rose at the fastest overall rate since output prices data were first collected in January 2003.

Business expectations at service providers remained negative for the third month running in January, linked to the weak economy, high interest rates, credit problems and uncertainty over oil prices. That said, the degree of pessimism lessened since December.

Key points

- Composite Output Index falls to 68-month low of 45.6
- Broad-based contraction in manufacturing and services
- Record rate of output price inflation

Comment

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

"Output contraction gained stronger momentum and became broad-based, the January HSBC Russia Services & Composite PMI survey revealed. Judged by past correlation between PMI and GDP, the Russian economy would contract 1.5% q-o-q in 1Q if the headline PMI Index stays at its January level throughout the rest of the quarter."

"Still, the trend of deterioration of economic conditions in Russia revealed by the PMI Indexes is much more gradual these days than the one seen in 2008/09. Consistent with PMI, other high frequency economic indicators (industrial production, freight transportation, retail sales, unemployment) signal the ongoing slide of the Russian economy into a recession rather than a sharp fall in economic activity."

"Overall, the PMI and other macroeconomic data stay in line with our forecast of 3.5% GDP contraction in Russia in 2015, which is milder than the 7.8% output fall seen in 2009. A decline or recovery in oil prices may change this outlook for worse or better."

"The PMI Price Indexes keep disappointing. Now we observe a strong rise in inflationary pressures amidst the output decline, while the price pressures in the Russian economy eased during the previous economic crisis in 2008/09. The PMI Composite Output Prices Index hit its new all-time record high mark in January. In this respect, the monetary policy easing appears premature."

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.

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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

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