

HSBC Russia Services PMI®

Private sector output falls for fifth month running

Summary

The Russian private sector economy contracted sharply in February, according to *PMI*® survey data from HSBC and Markit. Total activity declined at the fastest rate since May 2009, accompanied by a steeper drop in new business. Moreover, the level of outstanding business and employment also fell sharply. On a more positive note, input price inflation eased to a four-month low and charges rose at the slowest rate since November.

The seasonally adjusted HSBC Russia Composite Output Index declined to 44.7 in February, from 45.6 in January. Business activity has now declined for five successive months. A modest rise in manufacturing output was offset by a steeper fall in services activity.

The seasonally adjusted HSBC Russia Services Business Activity Index registered below 50.0 for the tenth time in the past 12 months in February, signalling an ongoing decline in Russian service sector business activity. Moreover, the Index fell to 41.3, from 43.9, indicating the fastest rate of decline since March 2009.

Weakening demand was highlighted by a further sharp fall in new business received by Russian service providers in February. Having eased to a four-month low in January, the rate of contraction accelerated to the sharpest in nearly six years in the latest period. In contrast, manufacturing new orders rose for the first time in three months, albeit marginally.

The volume of outstanding business held at Russian private sector companies declined in February at the fastest rate since April 2009. This reflected a sharper contraction in the service sector, as manufacturing backlogs fell at a slower pace.

Private sector employment in Russia declined for the twentieth successive month in February. The rate of job shedding was little-changed from January's five-and-a-half-year low. Service sector companies cut jobs at a sharper rate than manufacturers during the month.

The 12-month outlook for Russian services activity remained negative for the fourth consecutive month in February. Moreover, the degree of pessimism deepened since January and was the second-worst on record, according to survey respondents.

The rate of input price inflation in the Russian private sector moderated to a four-month low in February. That said, it remained sharp overall, with firms reporting higher prices for fuel, utilities and imports. The rate of inflation in prices charged by Russian private sector companies eased from January's series-record to the weakest since November. That said, it remained sharper than the long-run series average.

Key points

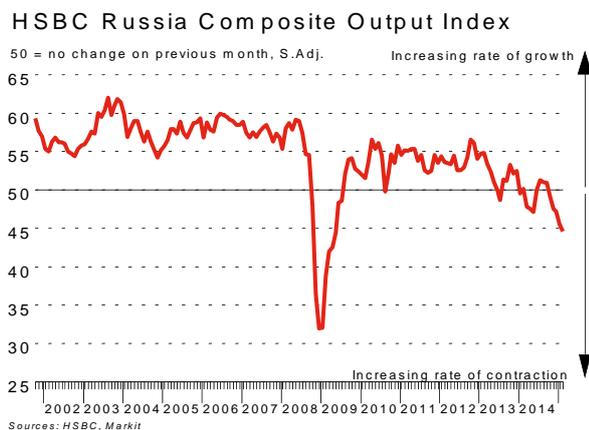
- Composite Output Index falls to 69-month low of 44.7
- Manufacturing output rises but services activity falls at fastest rate since March 2009
- Input price inflation eases to four-month low

Comment

Commenting on the Russia Services PMI® survey, Trevor Balchin, Senior Economist at Markit, said:

"The Russian economy contracted at a sharper rate in February, according to the latest HSBC Composite PMI. Output fell at the fastest rate in over five-and-a-half years, despite an increase in manufacturing production. Based on the historical relationship between the PMI and GDP, survey data for the first two months of the year point to a year-on-year fall in GDP of around 2% in the first quarter. This chimes with the most recent monthly estimate from the Economy Ministry which reported a 1.5% contraction in January. On a more encouraging note, input price inflation eased to a four-month low, and output price inflation eased from January's record pace."

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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