

# HSBC Russia Services PMI®

## Service sector activity continues to decline, but confidence returns to positive territory

### Summary

The Russian private sector economy continued to contract markedly in March, but at a much slower rate than February's near six-year record, according to PMI® survey data from HSBC and Markit.

After accounting for seasonal factors, the seasonally adjusted HSBC Russia Composite Output Index improved to a three-month high of 46.8. That compared to 44.7 in February. Both manufacturers and service providers recorded net reductions in output since the previous month.

However, the fall in manufacturing production was modest, and service providers recorded a much slower pace of contraction. The seasonally adjusted HSBC Russia Services Business Activity Index recorded a level of 46.1 in March, improving markedly from February's 41.3.

Anecdotal evidence from service providers suggested that economic conditions remained challenging, which was highlighted by a marked fall in new business. As was the case with activity, the degree to which new business fell was much weaker than in February and sectors with greater exposure to changes in consumer demand (such as Hotels & Restaurants and Other Services) saw some modest growth over the month. Manufacturers recorded a slight reduction in new business.

Russian service providers signalled some confidence that the recent downturn will prove transitory, with over a third of panellists forecasting some growth of activity from present levels over the next 12 months. Companies signalled hopes of a turnaround in economic conditions, which should lead to sales and development opportunities.

Despite indicating renewed business optimism, challenging current conditions meant service sector firms continued to shed staff during March. Latest data showed employment falling for a thirteenth successive month, and again at a marked pace. Despite a reduction in capacity, service providers had sufficient spare resources to make substantial inroads into their work outstanding.

Manufacturers also signalled spare capacity during March, with both employment and outstanding business being cut, albeit at slower rates.

Finally, input price inflation in the Russian service sector remained elevated during March amid reports that business costs were generally rising. Some panellists made specific mention of higher prices being paid for labour and utilities. Output charges were raised in

response to increased operating costs, but the rate of inflation eased sharply to a five-month low.

Manufacturers signalled similar trends, meaning prices paid for inputs and average output prices charged by Russian private sector companies rose at the slowest rates for five and four months respectively.

### Key points

- Composite Output Index improves to three-month high of 46.8
- Rate of service sector contraction eases markedly
- Business expectations turn positive as companies hope for turnaround in challenging economic environment

### Comment

Commenting on the Russia Services PMI® survey, Paul Smith, Senior Economist at Markit, said:

*"Latest data signalled that the economic environment remains tough, with activity, new business and employment in the service sector all registering net falls since the previous month.*

*"However, there are some tentative signs of a bottom in the downturn being reached, with rates of contraction much slower than in February. Moreover, companies offered a more upbeat assessment of the future than at any time in the past seven months amid hope of a turnaround in wider economic performance over the coming year."*

### 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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*Purchasing Managers' Index*<sup>™</sup> (PMI<sup>®</sup>) 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](http://www.markit.com/economics)

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