

# HSBC Russia Services PMI®

## Growth of Russian service sector strengthens in May

### Summary

May's PMI® survey data indicated an ongoing recovery of Russia's service sector, with concurrent rises in new business and activity signalled for a second month in a row.

May's seasonally adjusted HSBC Russia Services Business Activity Index improved to 52.8, from 50.7 in April. The latest reading was the best recorded by the survey since the end of 2013.

Meanwhile, the HSBC Russia Composite Output Index posted 51.6 in May, up from 50.8 in the previous month and above the 50.0 no-change mark for the second successive survey period. A marginal fall in manufacturing output weighed on the composite index during May.

The latest PMI data indicated a second successive monthly increase in new business at service providers. Panellists indicated that demand conditions had strengthened compared to April and, in some cases, this reflected better client access to finance. May's increase in service sector new business was the best recorded by the survey since February 2014. In contrast, manufacturers recorded a marked and accelerated contraction in new work.

Although growth was again registered, new orders placed with service providers had fallen for a sustained period between September 2014 and March of this year. This served to exacerbate spare capacity in Russia's services economy and the residual effects of a sustained run of declining new work continued to be felt in May. Backlogs of work fell again at a sharp rate, and this led to another round of job cuts. Latest survey data showed that employment was reduced at a marked pace, albeit one that remained slower than those seen around the turn of the year.

Employment and backlogs also continued to fall at manufacturers during the latest survey period.

On the price front, input costs continued to increase during May. Although inflation remained elevated, reflective of suppliers pushing up prices in response to firmer demand, the degree to which service sector costs increased was the slowest recorded since August 2014. There were reports that a more stable currency situation had helped to keep inflation in check.

Slower increases in input prices in turn reduced pressure on Russian service providers to increase their own charges. Latest data showed the weakest rise in average output charges for eight months.

Manufacturers indicated that both input prices and output charges rose at considerably slower rates during May.

Finally, Russian service providers remained confident of a rise in activity in the future. A number of panellists were buoyed by the recent uptick in demand and hope that this trend will continue.

### Comment

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

*"The recovery of the Russian private sector gained pace during May, with composite PMI data showing modest growth that was the best since the end of 2013."*

*"The services economy was the principal driver of the expansion, registering solid gains in both output and new orders. Although service providers may be benefitting from a modicum of import substitution amongst businesses and consumers, the latest data does suggest that underlying domestic economic conditions are steadily improving."*

### Key points

- Further growth of service sector activity and new work
- Excess capacity persists: backlogs and jobs both cut
- Business confidence remains in positive territory

### 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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