

Service Sector Shows Growth

By [The Moscow Times](#)

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HSBC says that a poor grain harvest this year will trim around 0.6 percent from GDP growth in the third quarter. **Maxim Stulov**

The service sector grew moderately in August, underpinned by improved business expectations, but weak rises in employment and new business tamed gains, the HSBC purchasing managers' index, or PMI, showed on Wednesday.

The headline figure rose to 52.6 in August from 52.0 in July, staying above the 50 mark that separates expansion from contraction for the 24th month in a row.

Although the PMI index recovered from a 22-month low seen in July, it still indicated only a muted rate of expansion, staying below the average 56.4 points recorded since the survey began in October 2001.

"Output growth in the Russian economy has become a notch faster ... In annualized terms, the economy must be growing at 2.8 percent in August, other things being equal," said Alexander Morozov, chief economist for Russia and the CIS at HSBC.

"This is the good news. The bad news is that other things are not equal this time."

He estimates that a poor grain harvest this year will trim around 0.6 percent from gross domestic product growth in the third quarter. The harvest is nevertheless expected to be better than that of 2010, when a prolonged drought destroyed a third of Russia's crops.

"More bad news is that the growth of new orders has moderated to a very low level. The last time this happened was during the severe heat waves in 2010," Morozov said.

The New Business Index stood at 51.1 in August, close to where it was at the same point in 2010, after falling in June from above 54.

The PMI index's position close to the 50.0 mark shows the Russian economy is now standing at a crossroads, Morozov said.

"Either a pick-up in demand will start supporting the current rate of output growth, or output growth will moderate in line with suppressed demand growth."

Earlier this month, PMI data showed that manufacturing expanded in August for the 11th month in a row, but growth slowed from July mainly due to a weaker contribution from new orders.

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