

Embargoed until 0900 MSK (0600 UTC) 31 December 2020

IHS Markit Russia Services PMI®

Including IHS Markit Russia Composite PMI®

Russian business activity contracts modestly in December

Key findings

Further declines in output and new business

Cost burdens rise at marked pace

Business confidence strengthens

December data were collected 04-21 December 2020

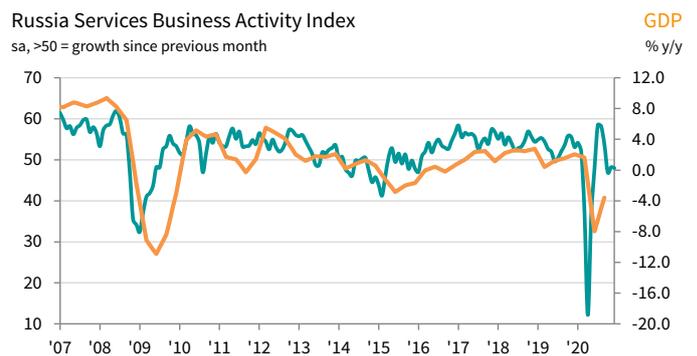
December PMI® data signalled a further downturn in business activity across the Russian service sector. The pace of contraction remained only moderate, as the decline in new business eased. At the same time, the rate of input price inflation was the second-fastest since March and marked overall. Despite weak client demand, firms partly passed on higher costs through the quickest rise in charges since April 2019. Meanwhile, output expectations improved to a four-month high amid hopes of an end to the pandemic.

The seasonally adjusted IHS Markit Russia Services Business Activity Index registered 48.0 in December, down fractionally from 48.2 in November. The latest headline figure signalled a modest decline in business activity at Russian service providers. Anecdotal evidence suggested that the fall in output was due to subdued client demand and a further contraction in new sales.

Service sector firms registered a third successive decrease in new business at the end of 2020. The contraction was attributed to muted customer demand and a drop in purchasing power among clients. That said, the rate of decline softened to the slowest in the aforementioned sequence and was only moderate overall.

Similarly, the rate of contraction in new export sales eased from that seen in November. Foreign client demand remained notably weak, however, as new business from abroad fell at a marked pace.

Russian service providers registered a substantial rise in cost burdens again during December. Although the rate of input price inflation softened from that seen in the previous



Sources: IHS Markit, FSSS.

survey period, it was still the second-fastest since March. The marked rise in cost burdens was often linked to supplier price hikes and unfavourable exchange rate movements.

At the same time, selling prices rose at an accelerated pace despite customer demand falling further. The solid increase was commonly attributed to the partial pass-through of greater costs to clients. Moreover, the pace of charge inflation was the quickest since April 2019.

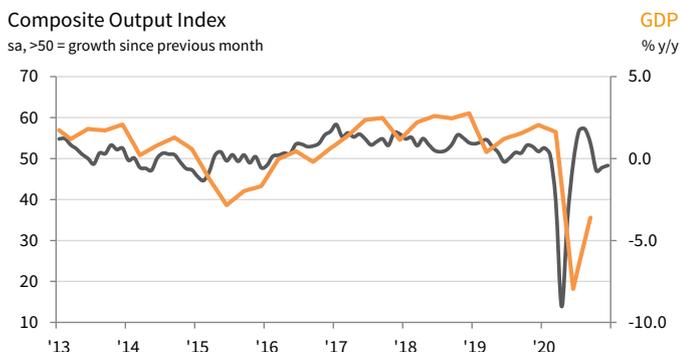
Encouragingly, service sector firms were more upbeat regarding the outlook for output over the coming 12 months in December. Optimism was buoyed by hopes of an end to the pandemic and the release of pent-up demand once restrictions are eased. The degree of sentiment strengthened and was the highest since August, but it was still below the long-run series average (since 2001).

In an effort to cut costs and amid lower new order inflows, Russian service sector firms reduced their workforce numbers at a solid pace at the end of 2020. The rate of job shedding quickened slightly from that seen in November.

Meanwhile, as pressure on capacity was reduced further, backlogs of work continued to be depleted in December, albeit at the slowest pace for three months.

IHS Markit Russia Composite PMI®

Softer fall in private sector business activity in December



Sources: IHS Markit, FSSS.

Output continued to decrease across the private sector, albeit at the slowest pace in the current three-month sequence of contraction.

The IHS Markit Composite PMI Output Index* posted 48.3 in December, up slightly from 47.8 in November. The softer decline was reflected a slower fall in manufacturing output.

Similarly, the downturn in new business was extended to three successive months, but slowed to only a moderate pace. That said, private sector firms signalled a renewed fall in new export orders, amid a further marked decline in service sector foreign client demand.

Meanwhile, input costs rose substantially in December, despite the rate of input price inflation easing from November's recent high. As a result, firms sought to partially pass on higher costs to clients, with selling prices rising at the fastest pace since February 2019.

Manufacturers and service providers alike registered stronger output expectations in December, with the overall degree of confidence rising to a four-month high.

Finally, the rate of job shedding eased at the end of 2020, as goods producers registered a softer decline in employment.

**Composite indices are weighted averages of comparable manufacturing and services indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The Composite Output Index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index.*

Comment

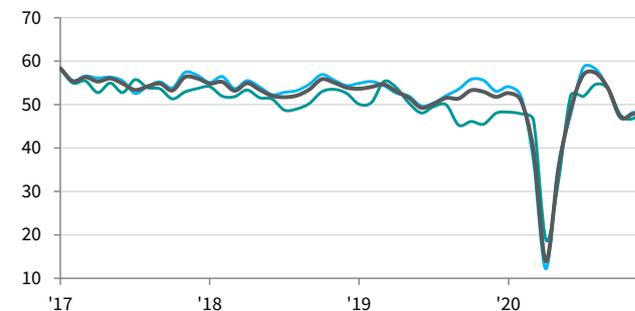
Commenting on the latest survey results, Siân Jones, Economist at IHS Markit, said:

"Russian service providers signalled a further fall in output in December, as weak client demand persisted at the end of 2020. Although the contraction in new business eased, new export sales dwindled once again.

"Nonetheless, firms remained upbeat regarding the outlook for output over the coming year, with expectations strengthening to a four-month high.

"At the composite level, a key point of interest continued to be focussed on inflationary pressures. The rate of increase in cost burdens remained historically elevated, and firms sought to pass on higher prices where they could. Nonetheless, the Central Bank of Russia (CBR) expects the recent spikes in supply-side inflationary risk to be temporary and therefore has held interest rates at 4.25%."

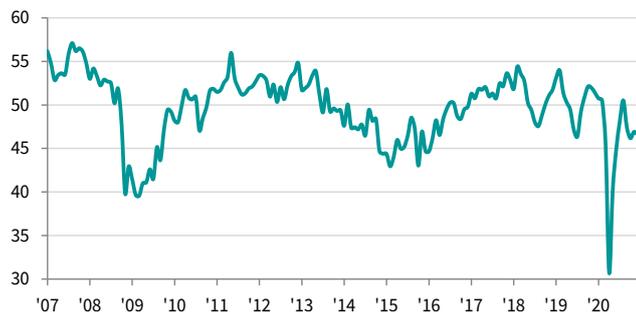
Output Index
Composite / Manufacturing / Services
sa, >50 = growth since previous month



Source: IHS Markit.

Services Employment Index

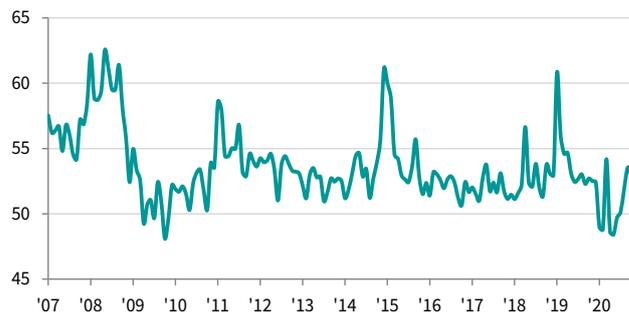
sa, >50 = growth since previous month



Source: IHS Markit.

Services Prices Charged Index

sa, >50 = inflation since previous month



Source: IHS Markit.

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Survey methodology

The IHS Markit Russia Services PMI® is compiled by IHS Markit from responses to questionnaires sent to a panel of around 250 service sector companies. The sectors covered include consumer (excluding retail), transport, information, communication, finance, insurance, real estate and business services. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Services Business Activity Index. This is a diffusion index calculated from a question that asks for changes in the volume of business activity compared with one month previously. The Services Business Activity Index is comparable to the Manufacturing Output Index. It may be referred to as the 'Services PMI' but is not comparable with the headline manufacturing PMI figure.

The Composite Output Index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index. The weights reflect the relative size of the manufacturing and services sectors according to official GDP data. The Composite Output Index may be referred to as the 'Composite PMI' but is not comparable with the headline manufacturing PMI figure.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

Survey dates and history

December data were collected 04-21 December 2020.

Survey data were first collected October 2001.

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