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IHS MARKIT RUSSIA SERVICES PMI®

INCLUDING IHS MARKIT RUSSIA COMPOSITE PMI®

Strong and accelerated rise in business activity in January

KEY FINDINGS

Rate of output growth in line with series trend

New business expansion one of the strongest in last six years

Rate of input price inflation quickens to fastest since September 2008

Business activity across the Russian service sector continued to expand in January, with the rate of growth accelerating from that seen in December. The upturn in output was supported by a sharp increase in new business and the fastest rise in new export orders since that series began in September 2014.

Changes in the rate of VAT led to significantly sharper rates of input price and output charge inflation, with the former accelerating to the quickest since September 2008. Meanwhile, the pace of job creation picked up to a ten-month high and business confidence remained strong.

The IHS Markit Russia Services Business Activity Index – a single-figure measure designed to track changes in total Russian services activity – posted 54.9 in January, up from 54.4 in December. The rise in business activity was strong overall and in line with the long-run series average. Anecdotal evidence suggested the output upturn was linked to new client acquisitions and greater new business.

Subsequently, new order growth accelerated in January. The rate of increase in new business was sharp overall and among the fastest seen over the last six years. Panellists commonly attributed the latest upturn to greater client demand and successful advertising campaigns.

Demand from foreign clients also picked up, with the rate of new export order growth quickening to the fastest since data collection began in September 2014. The strong expansion signalled the fourth successive monthly rise in new business from abroad.

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

On the price front, the rate of input cost inflation accelerated partly due to a hike in VAT. Service providers registered the quickest rise in cost burdens since September 2008. Other panel members stated that higher raw material and wage costs also contributed to the marked increase in input prices.

Firms sought to pass on larger cost burdens to clients through greater output charges. The rise in output prices was the fastest since December 2014 and marked overall.

In line with a stronger expansion in new business, service providers registered a faster rate of job creation. The solid rise in staffing numbers was commonly linked to greater business requirements. Furthermore, the pace of increase in employment was the quickest in ten months.

That said, pressure on capacity was not sufficient to increase backlogs. The level of outstanding business fell for the fourteenth successive month, with panellists attributing the decline to more efficient business processes. Nevertheless, the decrease in work-in-hand was the weakest since last April.

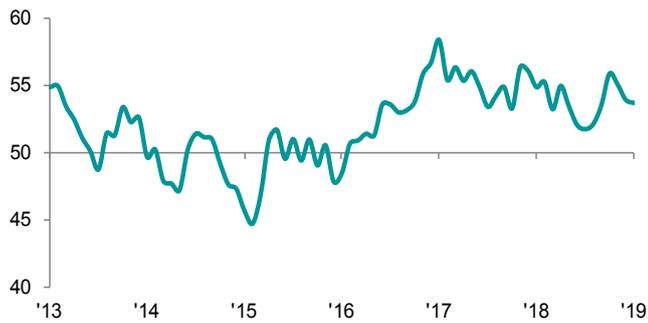
Finally, business confidence dipped slightly but remained strong in January. The level of optimism was higher than the series trend. Anecdotal evidence suggested positive sentiment stemmed from expectations of further new business growth.

IHS MARKIT RUSSIA COMPOSITE PMI®

Composite output growth softens to four-month low

Composite Output Index

sa, >50 = growth since previous month



Source: IHS Markit

Composite PMI indices are weighted averages of comparable manufacturing and services PMI indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data.

The Russia Composite Output Index is a weighted average of the Russia Manufacturing Output Index and the Russia Services Business Activity Index. The Composite Output Index posted 53.6 in January, down slightly from 53.9 in December. The increase in output was solid nonetheless and driven by a strong upturn in service-sector business activity.

Conversely, growth in new business across the Russian private sector accelerated in January. A solid rise in new orders in the manufacturing sector and a faster increase in new business among service providers supported one of the quickest upturns in the past two years.

The introduction of a higher rate of VAT on January 1st 2019 had a large impact on inflationary pressures across the private sector. Both manufacturers and service sector firms noted marked rises in input costs and output charges. The rate of input price inflation was the quickest in four years, while the pace of output charge inflation was the fastest since February 2015.

Meanwhile, manufacturing and service sector firms registered opposing trends in employment in January. Service providers posted the strongest rate of job creation for ten months, whereas manufacturers signalled a marginal decrease in workforce numbers. Backlogs continued to decline across the private sector, however.

Business confidence remained upbeat in January, albeit slightly lower than that seen in December. Goods producers remained more optimistic than services firms.

COMMENT

Commenting on the PMI data, Siân Jones, Economist at IHS Markit said:

"The Russian service sector continued to signal healthy growth in business activity at the start of 2019. A faster rise in new business supported a solid rate of job creation among service providers.

"Of key importance at both the sector and composite level was the recent hike in VAT. Input price inflation faced by service providers spiked to its fastest in over a decade. Encouragingly, service sector firms were able to raise output charges at the quickest rate since December 2014.

"At the composite level, the manufacturing sector weighed on overall performance. Although solid overall, output growth was held back by only a fractional rise in goods production. Nonetheless, business confidence remained upbeat."

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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 service 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.

January 2019 data were collected 11-29 January 2019.

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

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Purchasing Managers' Index™ (PMI®) surveys are now available for over 40 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 ihsmarkit.com/products/pmi.html.

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