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IHS Markit Russia Business Outlook

Russian business confidence remains robust

Key findings:

- Private sector optimism joint-strongest since October 2017
- Capex expectations reach highest since June 2013
- Forecasts show softer anticipated cost pressures

Data collected February 12-26

According to the latest data from the IHS Markit Russia Business Outlook survey, private sector firms signal a strong degree of confidence towards growth in business activity over the coming 12 months. In fact, survey respondents indicate the joint-highest level of optimism since October 2017. The net balance of firms expecting a rise in output is unchanged from last October (+25%) and just above the global average (+24%). Both manufacturers and service providers predict an upturn, with goods producers signalling stronger expectations following last October's two-year low.

Firms that foresee an increase in business activity attribute this to diversified product ranges, expansion into new markets, investment in new technology, modernisation and greater advertising campaigns. That said, strong competition and less robust demand conditions have been highlighted as potential threats to future growth.

At the same time, Russian private sector firms expect a solid rise in capex over the coming year, with the net balance of firms predicting an increase picking up to the highest since June 2013. Manufacturing and service sector firms alike foresee an upturn in investment. Goods producers signal the largest improvement in confidence across the two sectors since October, though service providers remain the most optimistic overall in regards to capex.

Russia business activity expectations



Employment & Investment Plans

The net balance of private sector firms expecting a rise in employment over the coming year (+16%) is in line with the series trend (since late-2009) and just above the global average (+15%), despite falling from October's six-year high (+20%). Manufacturers and service providers predict an increase in workforce numbers in the next year, but the net balances for each are lower than those seen last October.

Meanwhile, a solid rise in R&D spending is anticipated by Russian manufacturing firms, reflecting plans to invest in new machinery and more efficient business processes. Service providers also intend to expand their current research plans.

Inflation Expectations

Russian private sector firms have expressed more moderate expectations towards future rises in non-staff costs over the next year. The net balance of companies predicting an increase in raw material costs and other input prices (excluding staff costs) is the lowest in a year (+26%), dipping from October's two-and-a-half-year

high. Growth of staff costs in the service sector is forecast to remain solid.

Firms continue to foresee a marked rise in output charges over the coming year. The net balance (+40%) is in line with October's three-and-a-half year high and well above the global average (+15%).

Corporate Earnings

Profitability expectations are below the series average (+25%), and the net balance of firms predicting a rise in profits over the coming year (+18%) is lower than that seen in October (+23%). Although forecasts have improved in the manufacturing sector, a smaller percentage of service providers are expecting an increase in profits in the coming 12 months compared to the previous survey.

Comment:

Commenting on the Russia Business Outlook survey data, **Siân Jones**, Economist at IHS Markit, said:

“Russian private sector firms remain robustly confident towards a rise in business activity over the coming year, with the manufacturing sector exhibiting stronger confidence in future output growth compared to last October.”

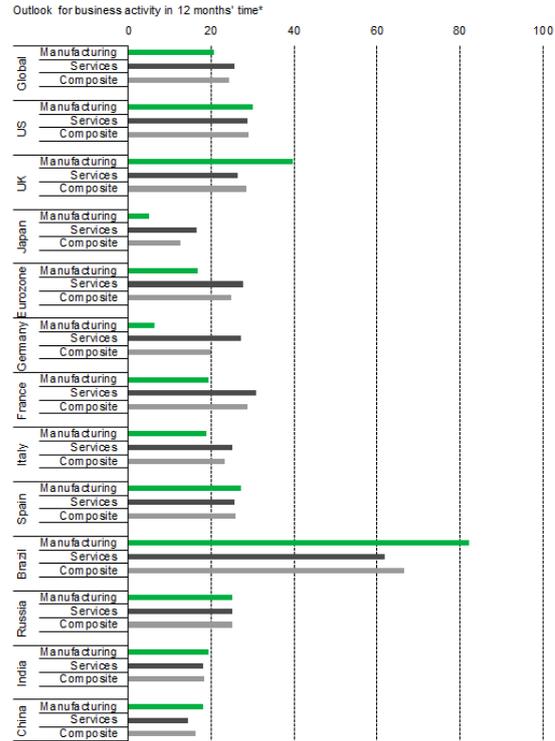
“Encouragingly, firms continue to note solid predictions with regards to employment and investment. Although panellists have concerns surrounding competition and a potential loss of demand, they are keen to modernise business processes and be more efficient. This is reflected in the highest net balance of firms expecting a rise in capital investment since June 2013.”

“Following the recent hike in VAT, fewer firms forecast a rise in non-staff costs over the coming year as the impact of a higher rate of consumption tax wanes. Despite cost pressures looking set to ease, companies are again predicting sharp increases in output charges.”

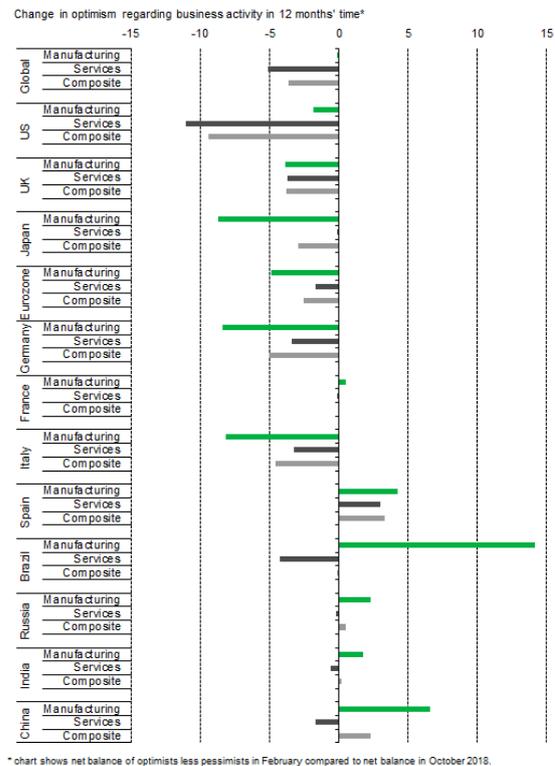
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Full data available on request from economics@ihsmarkit.com

Business optimism in February



How business activity expectations have changed since October



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Notes to Editors:

The Global Business Outlook Survey for worldwide manufacturing and services is produced by IHS Markit and is based on a survey of around 12,000 manufacturers and service providers that are asked to give their thoughts on future business conditions. The reports are produced on a tri-annual basis, with data collected in February, June and October. The latest survey was conducted between February 12 and 27.

Interest in the use of economic surveys for predicting turning points in economic cycles is ever increasing and the Business Outlook survey uses an identical methodology across all nations covered. It gives a unique perspective on future business conditions from Global manufacturers and service providers.

The methodology of the Business Outlook survey is identical in all countries that IHS Markit operates. This methodology seeks to ensure harmonization of data, and is designed to allow direct comparisons of business expectations across different countries. This provides a significant advantage for economic surveillance around the globe and for monitoring the evolution of the manufacturing and services economies by governments and the wider business community.

Data collection is undertaken via the completion of questionnaires three times a year at four-month intervals. A combination of phone, fax, website and email are used, with respondents allowed to select which mechanism they prefer to use.

The Business Outlook survey uses net balances to indicate the degree of future optimism or pessimism for each of the survey variables. These net balances vary between -100 and 100, with a value of 0.0 signalling a neutral outlook for the coming twelve months. Values above 0.0 indicate optimism amongst companies regarding the outlook for the coming twelve months while values below 0.0 indicate pessimism. The net balance figure is calculated by deducting the percentage number of survey respondents expecting a deterioration/decrease in a variable over the next twelve months from the percentage number of survey respondents expecting an improvement/increase.

Questionnaires are sent to a representative panel of around 12,000 manufacturing and services companies spread across the global economy in the countries mentioned above. Companies are carefully selected to ensure that the survey panel accurately reflects the true structure of each economy in terms of sectoral contribution to GDP, regional distribution and company size. This panel forms the basis for the survey. The current report is based on responses from around 7,000 firms.

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