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IHS MARKIT RUSSIA SERVICES PMI®

INCLUDING IHS MARKIT RUSSIA COMPOSITE PMI®

Faster expansion in business activity at the start of 2020 amid pickup in export sales

KEY FINDINGS

Solid upturns in output and new business

First fall in output charges since November 2009

Business confidence dips to lowest for over three years

January PMI® survey data indicated a faster increase in Russian service sector business activity. The opening month of the year saw a further solid expansion in new orders, supported by greater foreign client demand. That said, service providers raised their workforce numbers at only a marginal pace as backlogs of work continued to fall solidly. Greater hesitancy regarding the stability of future client demand was also reflected in less robust business confidence.

On the price front, the rate of input cost inflation moderated. Firms were unable to pass on higher input prices to their clients as output charges fell for the first time for over a decade.

The IHS Markit Russia Services Business Activity Index – a single-figure measure designed to track changes in total Russian services activity – posted 54.1 at the start of 2020, up from 53.1 in December, to signal a solid expansion in business activity across the Russian service sector. The rate of growth was only slightly below the long-run series trend (since 2001). Anecdotal evidence attributed the rise in output to a further increase in client demand and new customer acquisitions.

New business received by Russian service providers rose at a solid pace in January, despite the rate of expansion easing to a four-month low. Where an increase was reported, companies linked this to more favourable domestic and foreign demand conditions. New export orders expanded at a marginal rate, but one that was the quickest since last

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

October.

Meanwhile, service sector firms registered a further increase in input costs at the start of 2020, with the pace of inflation easing slightly from that seen in December. The rate of increase was relatively subdued compared to the long-run series trend. Where an increase in cost burdens was reported, firms linked this to supplier price hikes and higher utility charges.

Firms struggled to pass on higher costs to clients, however, with output charges decreasing for the first time since November 2009. Companies noted that efforts to remain competitive and secure clients drove output prices lower.

Business confidence also dipped following uncertainty regarding the stability of future demand conditions. Service providers still expect business activity to rise over the coming year, despite the degree of optimism slipping to the lowest since December 2016.

Softer new business growth also contributed to a slower rise in staffing numbers in January. The rate of job creation was only marginal overall and the slowest in the current five-month sequence of expansion.

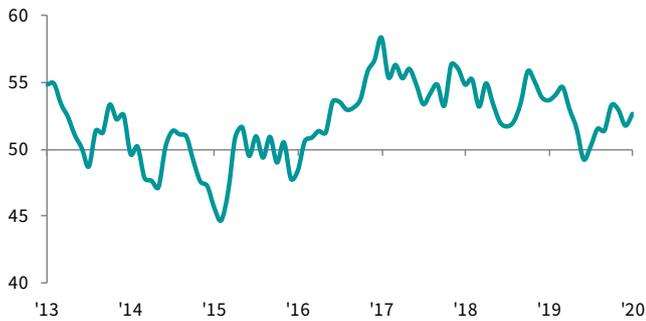
Evidence of spare capacity was also reflected in a further reduction in the level of outstanding business. Backlogs of work fell at a solid rate as firms were able to meet business requirements in a timely manner.

IHS MARKIT RUSSIA COMPOSITE PMI®

Composite output growth supported by faster service sector expansion

Composite Output Index

sa, >50 = growth since previous month



Source: IHS Markit

Further contraction across the manufacturing sector was outweighed by a solid upturn in service sector business activity at the start of the new year.

The Russia Composite Output Index* registered 52.6 in the opening month of 2020, up from 51.8 in December. Although the contraction in manufacturing production eased slightly, the overall expansion was driven by a faster rise in service sector output. The pace of the upturn was moderate overall.

January data signalled a further modest increase in new business, with stronger demand in the service sector counteracting a solid decline in manufacturing new orders. Export sales continued to decrease at the composite level, albeit at the weakest rate for six months.

Reports of spare capacity and a further reduction in backlogs of work across both the manufacturing and service sectors led to only a fractional rise in employment in January. The rate of job creation was the slowest since last September.

Meanwhile, business confidence eased to its lowest since August 2017 as service providers registered greater hesitancy in their outlook for output over the coming year.

On the price front, input cost inflation eased and remained historically subdued. As a result, output charges fell for the first time since October 2009.

*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.

COMMENT

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

"Although less upbeat regarding future business activity growth, service providers registered a stronger increase in output in January. Nevertheless, underlying data signalled challenging demand conditions, less motivation to expand workforce numbers and a decline in charges amid efforts to stay competitive.

"The Russian private sector continued to grow in the opening month of 2020, with firms registering a more robust expansion in business activity. The upturn was only moderate, however, with the manufacturing sector still lingering in contraction territory. As such, we are forecasting economic growth to ease to 1.25% in the opening three months of the year compared to the same period in 2019."

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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 2020 data were collected 13-29 January 2020.

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

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About PMI

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](https://www.ihsmarkit.com/products/pmi.html).

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