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## IHS MARKIT RUSSIA SERVICES PMI®

INCLUDING IHS MARKIT RUSSIA COMPOSITE PMI®

### Business activity growth softens to three-year low

#### KEY FINDINGS

Output and new business increase at modest rates

Employment falls for first time since September 2018

Inflationary pressures moderate

May survey data signalled a moderate rise in business activity across the Russian service sector. The upturn was the slowest since May 2016 amid signs of softer domestic demand conditions and only a modest increase in new business. New export orders grew at a strong rate, however. The slower rise in new orders contributed to the first fall in employment since last September, as backlogs of work continued to decrease.

On the price front, inflationary pressures eased further in May as the effects of January's hike in VAT continue to peter out. Meanwhile, business confidence remained strongly optimistic despite reports of softer demand conditions.

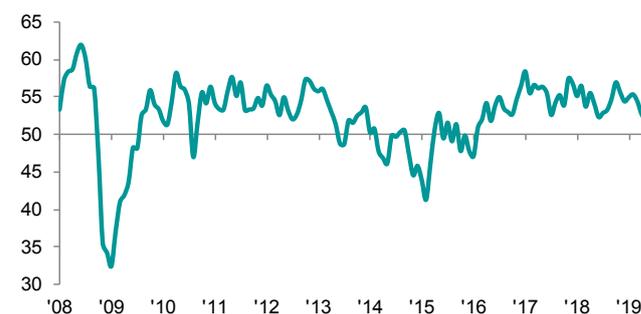
The IHS Markit Russia Services Business Activity Index – a single-figure measure designed to track changes in total Russian services activity – posted 52.0 in May, down slightly from 52.6 in April. The moderate rise in output was commonly linked to a sustained increase in new orders. That said, the rate of expansion softened to a three-year low and was slower than the series average.

In line with the trend for business activity, growth in new order inflows softened in May. The modest rise in new business was commonly attributed to new customer acquisitions.

Although the overall expansion in new business eased to an 11-month low, foreign client demand rose strongly. The latest data extended the current sequence of expansion in export sales to eight months, with anecdotal evidence highlighting greater access to new markets.

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

Service providers registered the first decline in workforce numbers since September 2018 in May. The fall in staffing levels was only marginal, but reportedly stemmed from softer domestic demand conditions and redundancies.

Meanwhile, firms recorded a further decline in the level of outstanding business. Panellists linked the fall to more efficient business processes.

Input price inflation moderated in May. Although the rise in cost burdens was strong, the pace of increase eased for the fourth successive month. The rise was reportedly driven by higher purchase prices and wage costs.

Similarly, output charges continued to increase, albeit at a softer pace. The rate of inflation eased to a five-month low and was broadly in line with the average in 2018 as the effects of January's VAT hike continued to peter out. Nevertheless, firms stated that the increase was due to the partial pass-through of higher costs to clients.

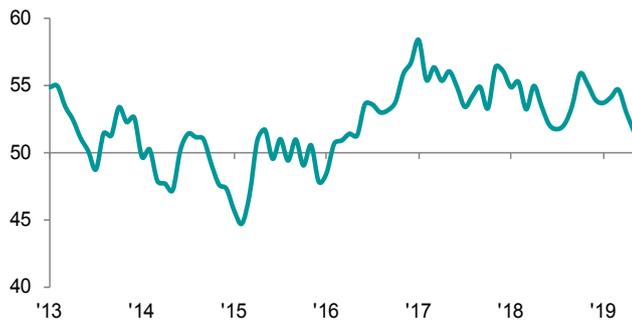
Service sector firms registered a robust degree of confidence in May. The level of optimism was above the series trend. Panellists attributed positive sentiment to new client acquisitions, greater advertising and investment in new technology.

## IHS MARKIT RUSSIA COMPOSITE PMI®

## Composite output growth eases to three-year low

Composite Output Index

sa, &gt;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 registered 51.5 in May, down from 53.0 in April. The overall expansion across the Russian private sector eased due to softer output growth in the manufacturing and service sectors. The rate of increase was the slowest since May 2016.

Private sector new order growth also softened amid less robust demand conditions in the manufacturing sector. The upturn was the slowest since last August. At the same time, service providers registered a strong rise in new export orders. Nonetheless, the expansion was outweighed by a contraction among their goods-producing counterparts.

Private sector firms continued to show little strain on capacity as both backlogs of work and employment fell. Workforce numbers declined for the second month running, albeit at only a marginal rate.

Input costs and output charges increased further in May, but rates of inflation continued to ease from January's peaks. Although strong, the pace of increase in cost burdens was the slowest since March 2018. Meanwhile, output price inflation was the softest in 2019 so far.

Finally, business expectations remained strongly optimistic in May. Although down on that seen in April, the degree of confidence was well above the series trend.

### COMMENT

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

*"Output growth across the Russian service sector continued to ease in May, with the upturn slowing to the softest for three years. Although the expansion in export orders remained strong, domestic demand struggled to keep up, with total new business increasing only modestly.*

*"In turn, service providers shed workforce numbers for the first time since last September, with many linking this to increased redundancies and lacklustre domestic demand.*

*"Overall growth was weighed on by a notable slowdown in the manufacturing sector. Private sector firms noted the slowest output expansion since May 2016, but business confidence remained robust amid greater investment in technology.*

*"Selling price inflation eased and was broadly in line with the 2018 average, as cost burdens increased at a slower pace, suggesting the impact of January's VAT hike has played out in full."*

## CONTACT

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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.

May 2019 data were collected 13-29 May 2019.

For further information on the PMI survey methodology, please contact [economics@ihsmarkit.com](mailto: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](http://ihsmarkit.com/products/pmi.html).

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