

EMBARGOED UNTIL: 00:01 (UTC) July 15th 2019

IHS Markit Russia Business Outlook

Russian business optimism softens to lowest in over three years

Key findings:

- Business activity forecasts worsen
- Employment expectations lowest since February 2016
- Profitability outlook eases to three-year low

Data collected June 12-26

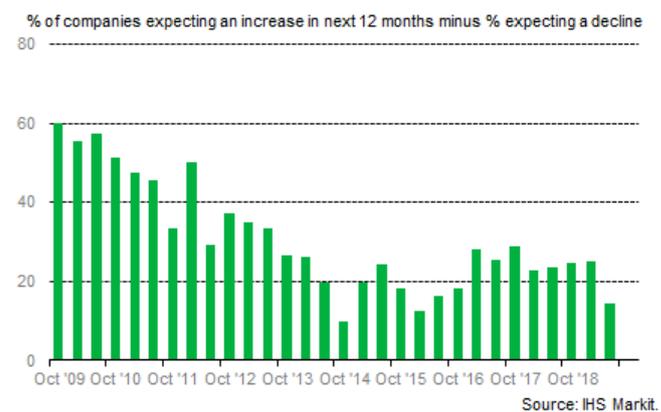
According to the latest data from the IHS Markit Russia Business Outlook survey, fewer private sector firms are anticipating a rise in business activity over the coming year. The net balance of companies expecting an increase in output has fallen from +25% in February to +15% in June, the lowest since February 2016. Furthermore, the net balance of firms that forecast growth is below both the long-run series (+31%) and global (+18%) averages.

Of those firms that expect an increase in business activity, many have stated that investment in new technology and repairs to machinery, alongside new product development, are key factors behind optimism. Some panellists also note that marketing and advertising initiatives could help gain entry into new export markets and boost sales.

That said, the ease in confidence has been attributed to threats to growth such as greater competition across the manufacturing and service sectors, more difficult business conditions for small and medium sized firms, and weaker domestic and foreign demand. Anecdotal evidence has also linked the reduction in optimism to potential increases in taxes and input costs.

At the sector level, manufacturers and service providers alike are less confident towards an expansion in output over the coming year compared to February. Furthermore, the net balance of goods producers anticipating a rise in business activity (+15%) has

Russia business activity expectations



dipped to the lowest in the series history (since early-2008).

Employment & Investment Plans

Russian private sector firms are less optimistic towards hiring decisions over the next 12 months, with the net balance of companies forecasting a rise in workforce numbers slipping to +6%. This is the lowest since February 2016 and below the global average (+10%).

Despite reports of plans to invest in new machinery and repairs, expectations towards capex spending have eased. The net balance is the lowest for a year, with some firms stating that a lack of capital is holding back investment decisions.

Inflation Expectations

Cost pressures that Russian private sector firms face are expected to continue to increase over the coming year, albeit to a lesser degree. Net balances of firms anticipating rises in staff and non-staff costs have eased since February. The proportion of companies expecting an increase in non-staff prices has dipped to a two-year

low, largely stemming from a smaller percentage of service providers anticipating an increase.

Russian private sector firms continue to forecast a rise in output prices over the coming year. Manufacturers are signalling stronger expectations, whilst service providers are less optimistic of an increase.

Corporate Earnings

Following on from weaker forecasts for business activity and future output charges, firms are less confident of a rise in profits over the next year. The net balance has slipped to the lowest for three years, with manufacturers signalling the smallest degree of positive sentiment since the series began in 2008.

Comment:

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

“Russian private sector firms are signalling greater hesitancy regarding expectations for the coming year. Weaker domestic and external demand, and tougher overall business conditions have been reflected in fewer firms forecasting output growth. Subsequently, companies are anticipating workforce numbers to increase only slightly over the coming 12 months.”

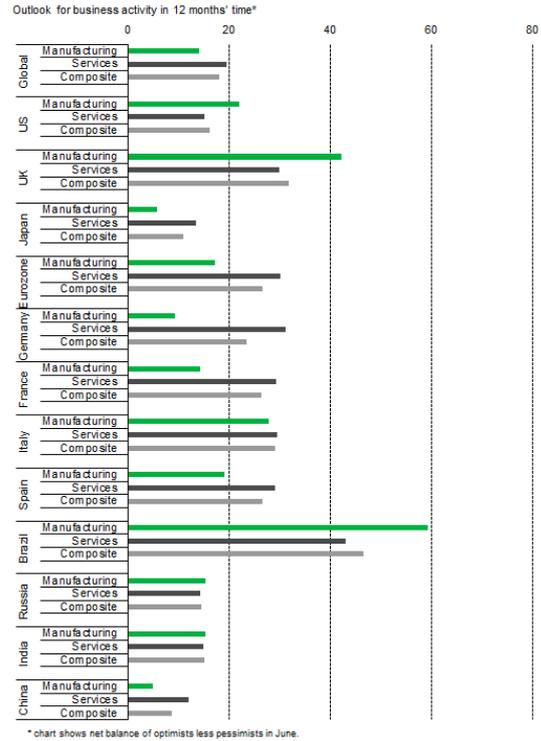
“Although firms identify that investment in new technology and machinery will drive growth in business activity, companies foresee difficulties justifying large expenditures amid a lack of capital and less robust profit expectations.”

“A drop in the net balance of firms expecting higher output charges has stemmed from further anecdotal reports of more intense competition, and fewer companies forecasting increases in staff and non-staff costs.”

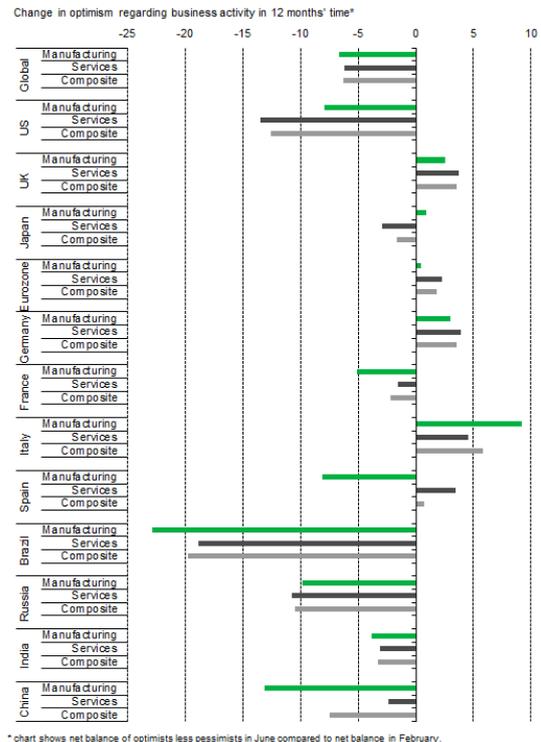
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Full data available on request from economics@ihsmarkit.com

Business optimism in June



How business activity expectations have changed since February



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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 June 12 and 26.

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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