Business activity growth accelerates to six-month high

KEY FINDINGS

- Solid expansion in output
- Renewed rise in employment
- Input prices increase at slowest rate since February 2018

September data signalled a stronger business activity expansion across the service sector, with growth accelerating to a solid rate that was the fastest since March. Supporting the upturn was a moderate, albeit relatively subdued, increase in new orders. Subsequently, firms expanded their workforce numbers for the first time since April. Nonetheless, business confidence remained muted and dipped to a six-month low.

Meanwhile, inflationary pressures eased, with increases in both input prices and output charges softening, partly due to efforts to remain competitive.

The IHS Markit Russia Services Business Activity Index – a single-figure measure designed to track changes in total Russian services activity – posted 53.6 in September, up from 52.1 in August. The latest index reading indicated a solid expansion in business activity that was the fastest for six months. Furthermore, the third quarterly average signalled a stronger overall increase in output compared to the second quarter of 2019. The upturn was widely linked to greater client demand. That said, the rate of growth was still weaker than the series trend.

New business increased only moderately in September, with the rate of expansion broadly in line with that seen in August and below the series trend. Where an increase was reported, panelists attributed this to the acquisition of new clients. External demand conditions also remained subdued, with new export orders rising only fractionally and at a pace well below those seen earlier in the year.

Greater business requirements meanwhile led to a renewed rise in employment. September data brought to an end a four-month sequence of decline in staffing levels. The rate of growth was the fastest since March, but only marginal overall.

Subsequently, firms registered a further fall in backlogs of work. The level of outstanding business decreased solidly, albeit at the softest pace for three months. Service providers often stated that the decline in incomplete business was due to the timely processing of orders.

On the price front, cost burdens faced by firms rose at a relatively solid rate in September. The pace of increase softened for the seventh time in eight months and was the slowest since February 2018.

Service providers partly passed on higher utility and supplier costs to clients through greater charges. That said, efforts to remain competitive resulted in price rises being relatively modest.

Finally, expectations towards business activity over the coming year dipped to a six-month low at the end of the third quarter. Although some firms stated that optimism stemmed from investment in marketing and new client acquisitions, others were downbeat about the outlook amid reports of difficult demand conditions for small- and medium-sized companies.
New business unchanged following manufacturing slowdown

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 51.4 in September, broadly in line with 51.5 in August, and signalling a modest expansion in the Russian private sector. The upturn was driven by a solid rise in service sector activity, as manufacturers noted the fastest fall in production since early-2009.

The level of new business was unchanged from that seen in August, as a marked decline in manufacturing new orders weighed on the overall inflow of work. Moreover, weak external demand led to the sharpest decrease in new export orders for three years.

Meanwhile, employment was broadly unchanged in the private sector as a marginal expansion across services was partly offset by a moderate fall in workforce numbers among manufacturers. Spare capacity was evident in a further decline in backlogs of work across the private sector.

Rates of both input price and output charge inflation softened in September. Cost burdens faced by firms rose at the slowest pace since the start of 2018. Output price inflation eased to a 19-month low as both manufacturers and service providers sought to remain competitive.

Finally, private sector firms registered less robust expectations towards output over the coming year amid concerns surrounding subdued demand conditions.

COMMENT

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

“Russian service providers indicated a faster rise in business activity in September, despite only a modest expansion in new orders, as backlogs of work declined further.

"Although firms raised their workforce numbers for the first time since April, they expressed a lower degree of optimism towards future output. Firms highlighted difficulties facing small- and medium-sized firms.

"Input prices rose at the slowest pace since early-2018 amid cost-cutting initiatives. In a further effort to remain competitive service providers increased their charges only moderately.

"At the composite level, private sector output and new orders were weighed on by contractions across the manufacturing sector, with overall new business levels unchanged from August. Although there seems to have been little contagion into the service sector so far, forward-looking indicators such as output expectations signal concerns among businesses towards the prospects for wider economic growth.”
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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.

September 2019 data were collected 12-26 September 2019.

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

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