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IHS Markit Russia Services PMI®

Including IHS Markit Russia Composite PMI®

Business activity expansion softest for five months in July

Key findings

Weaker gains in output and new orders

Rate of cost inflation eases to six-month low

Business confidence lowest in 2021 so far

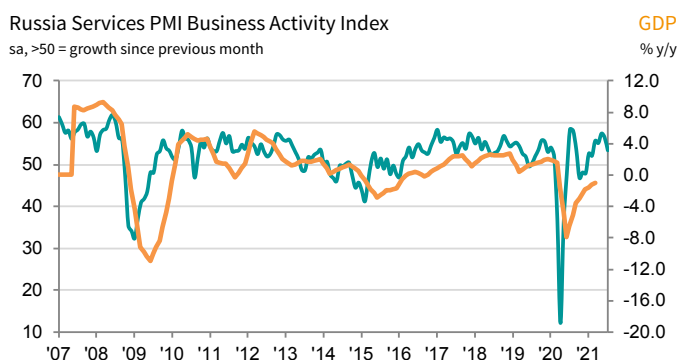
Data were collected 12-28 July 2021.

July PMI® data indicated a further monthly upturn in business activity across the Russian service sector, despite the pace of growth easing to the slowest since February. Contributing to the softer expansion was a weaker rise in new business, with foreign client demand contracting for the first time in five months. Meanwhile, inflationary pressures remained historically elevated, but the rate of input cost inflation eased to the slowest since January. Firms continued to raise their selling prices, albeit at the softest pace for three months.

Pressure on capacity continued to drop, as backlogs of work fell at the quickest pace since November 2020. As a result, employment rose only modestly and concerns regarding the sustainability of customer demand weighed on business confidence.

The seasonally adjusted IHS Markit Russia Services Business Activity Index registered 53.5 in July, down from 56.5 in June, to signal the slowest rise in Russian service sector business activity for five months. Nonetheless, the latest expansion was the seventh in as many months, and was solid overall. Where a rise in output was registered, firms reported this was due to sustained client demand and a further increase in new orders.

New business rose further in July, with service providers noting a solid upturn in client demand. Anecdotal evidence suggested that the increase was linked to another uptick in orders from existing customers, and the acquisition of new clients. The rate of new order growth was the slowest since February, however.



Sources: IHS Markit, FSSS.

In contrast to the trend for total sales, new export orders received by service providers contracted for the first time since February. Although only fractional, the decline marked a great difference in foreign demand conditions from the strong expansion seen in June.

Service sector firms continued to record a marked rise in cost burdens during July. Higher input prices were commonly linked to greater supplier and fuel costs. The rate of cost inflation was historically elevated, despite easing to the softest in six months.

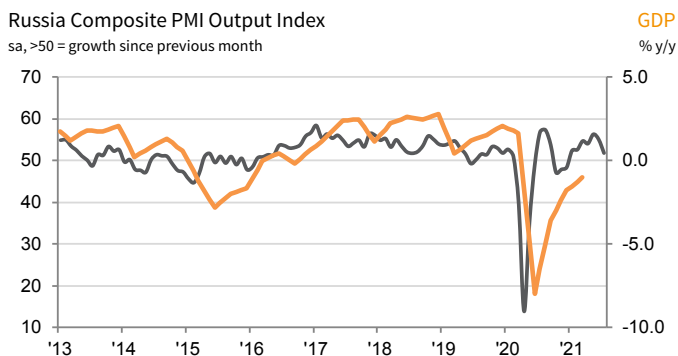
Nevertheless, Russian service providers sought to pass-through higher costs to their clients, where possible. Output charges rose for the thirteenth month running and sharply overall, albeit at the softest pace since April.

At the same time, backlogs of work fell at the steepest pace since November 2020 in July. Firms noted sufficient capacity to process incoming new business. As a result, the rate of job creation eased to only a modest pace that was the slowest since March.

Finally, business expectations regarding the outlook for output over the coming year dropped to the lowest in 2021 so far during July. Although optimism was often linked to a sustained rise in client demand and hopes of an improvement in economic conditions as the severity of the pandemic eases, concerns regarding the stability of future demand weighed on confidence.

IHS Markit Russia Composite PMI®

Business activity growth slows in July



Sources: IHS Markit, FSSS.

The IHS Markit Russia Composite PMI Output Index* posted 51.7 in July, down from 55.0 in June. Although modest, the rate of output expansion was the slowest in the current seven-month sequence of growth. The softer rise in business activity stemmed from a weaker service sector upturn, and a renewed contraction at manufacturers.

Similarly, private sector total sales growth eased to only a marginal pace, as less buoyant domestic demand was met by a decline in new export orders.

At the same time, input prices continued to rise markedly, albeit at a slower pace. Manufacturers and service providers both noted softer increases in cost burdens. Nonetheless, firms still sought to pass-through higher costs to clients where possible.

Meanwhile, pressure on capacity dwindled, with manufacturing firms also cutting their workforce numbers. Concerns regarding the sustainability of demand conditions due to the pandemic weighed on business confidence.

*Composite indices are weighted averages of comparable manufacturing and services indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The Composite Output Index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index.

Comment

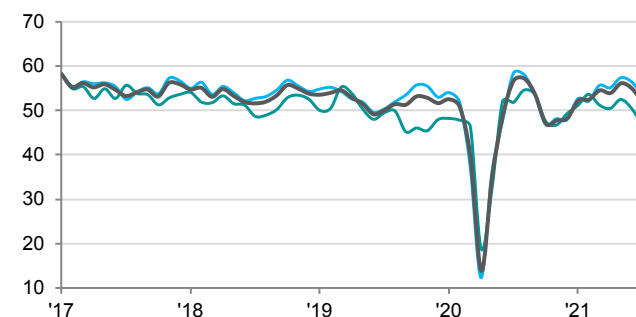
Commenting on the latest survey results, Siân Jones, Senior Economist at IHS Markit, said:

"Russian service providers signalled further business activity growth in July, but once again, momentum was lost as customer demand softened amid reintroduced restrictions. Foreign client demand was particularly weak, as new exports order fell following a strong expansion in June.

"Sadly, concerns about demand growth in the medium-term weighed on business confidence, which sank to the lowest in the year-to-date.

"Encouraging for businesses, however, was another slight let-up in inflationary pressures from the peaks seen in May. Softer rises in costs were also seen at the composite level, suggesting that price inflation may have peaked. This comes hot on the heels of a recent, and large, rate hike by the Central Bank of Russia."

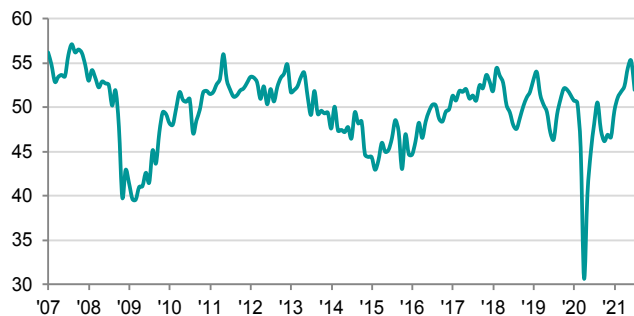
Russia PMI Output Index
Composite / Manufacturing / Services
sa, >50 = growth since previous month



Source: IHS Markit.

Russia Services PMI Employment Index

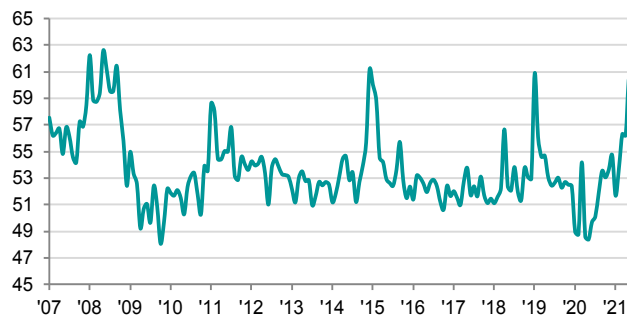
sa, >50 = growth since previous month



Source: IHS Markit.

Russia Services PMI Prices Charged Index

sa, >50 = inflation since previous month



Source: IHS Markit.

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Survey 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 services 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.

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

Survey dates and history

July data were collected 12-28 July 2021.

Survey data were first collected October 2001.

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