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IHS Markit Russia Business Outlook

Russian business confidence joint-lowest for four years

Key findings:

- Business activity forecasts weaken
- Hiring intentions moderate amid challenges finding skilled candidates
- Inflationary pressures look set to soften

Data collected February 12-26

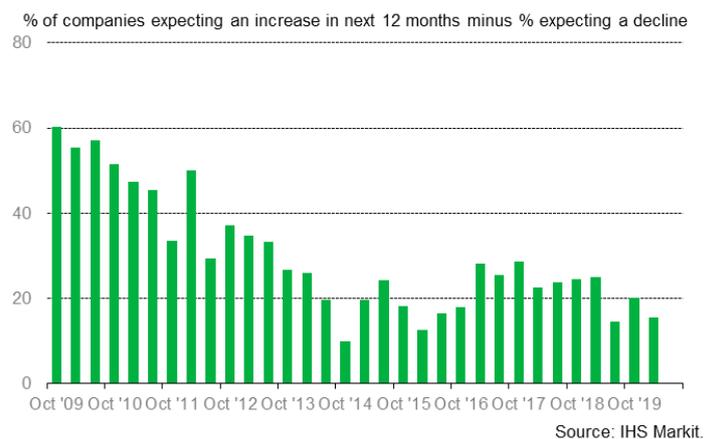
According to the latest data from the IHS Markit Russia Business Outlook survey, private sector firms are less optimistic regarding the outlook for output over the coming 12 months in February. The net balance of companies expecting an increase in activity (+15%) is the joint-lowest since February 2016 (alongside June 2019) and below the long-run series average (+30%). However, although signalling a diverging trend, the net balance is only slightly lower than the global average (+18%).

Of the manufacturers and service providers that are expecting a rise in business activity, opportunities for growth identified include greater marketing activity and investment in new product development, with the diversification of product offerings prioritised. Some companies also note that greater access to technology and digitisation will enable them to develop new service lines and expand.

That said, concerns towards the outlook for output are weighing on company confidence. Threats to growth are largely centred on challenging domestic demand conditions and worries that clients would cease trading in the near future, with greater competition for customers exacerbating this. Difficulties finding suitable candidates for available roles are also dragging on optimism.

At the sector level, the net balances of both manufacturing (+20%) and services (+14%) compared

Russia business activity expectations



to those seen in October.

Employment & Investment Plans

Manufacturers and service providers are less optimistic of an increase in hiring activity over the coming 12 months, with the overall net balance falling to +9% in February (from +17% in October). Less robust forecasts for employment are, in part, linked to reports from firms regarding difficulties finding suitably skilled candidates.

Expectations of weak demand conditions across the domestic market are also weighing on investment forecasts, with the net balance of firms that foresee a rise in capital spending dropping from +22% in October to +8% in February. Similarly, forecasts for R&D expenditure over the next 12 months have also been revised down. The net balance that foresee an increase in R&D spending (+10%) is the lowest since data collection began for the series a year ago.

Inflation Expectations

Inflationary pressure from both non-staff and staff costs is expected to be subdued over the coming year, with

manufacturing and service sector companies registering a reduction in confidence towards purchase price and wage rises. The net balance of firms expecting higher non-staff costs (+14%) is the lowest since this series began in October 2009.

At the same time, private sector firms are less confident of a rise in selling prices. The net balance that foresee an increase in output charges (+25%) is the lowest on record.

Corporate Earnings

In line with a weaker outlook for selling prices, Russian private sector firms are anticipating fewer opportunities for profit over the coming year. The respective net balance has dipped to its lowest since June 2016.

Comment:

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

“Russian private sector firms are signalling a reduction in optimism towards prospects for output growth over the coming 12 months, amid greater competition and difficult domestic demand conditions. The lower net balance is also reflected in weaker outlooks for employment, investment and profits.”

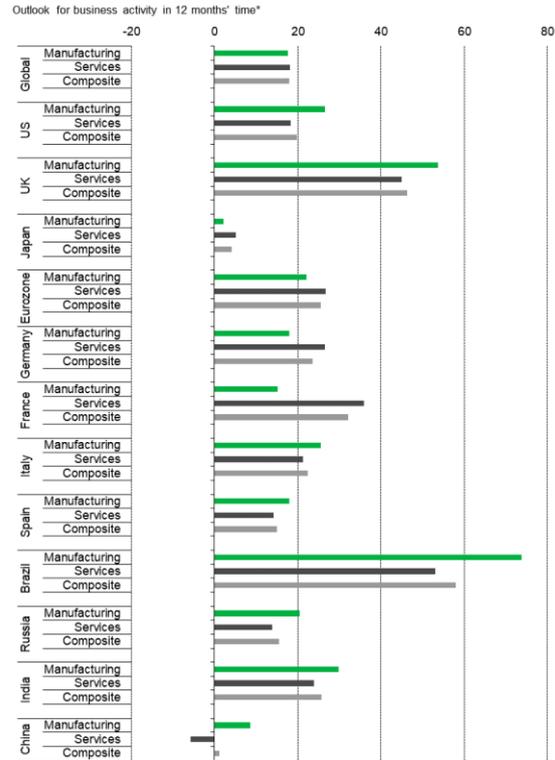
“Expectations point towards subdued inflationary pressures through the coming year, as fewer firms foresee increases in staff and non-staff costs. Alongside muted domestic demand, companies have moderated their forecasts for output charge inflation and, as a result, opportunities for profit.”

“Notably, the data collection period for the latest Russia Business Outlook survey preceded the escalation of the coronavirus disease 2019 (COVID-19) outbreak across Europe, which may have further dented output expectations in Russia.”

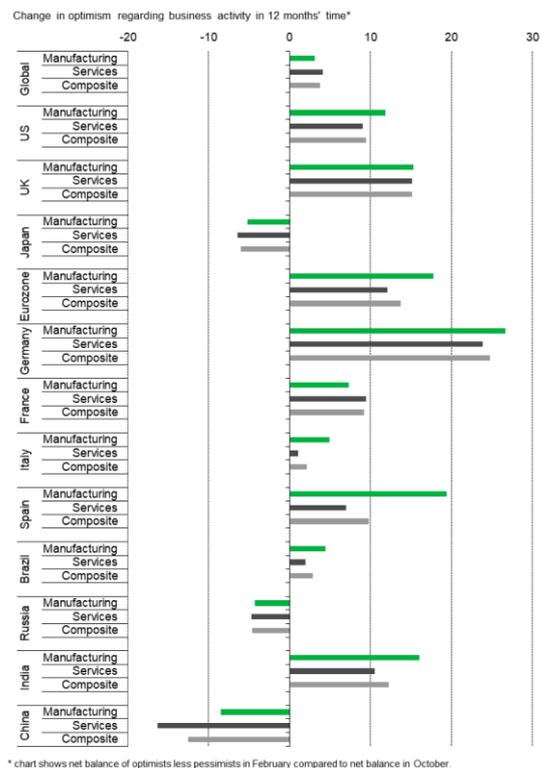
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Full data available on request from economics@ihsmarkit.com

Business optimism in February



How business activity expectations have changed since October



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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 February 12-27.

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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