

Embargoed until 0900 MSK (0600 UTC) 30 December 2021

IHS Markit Russia Services PMI®

Including IHS Markit Russia Composite PMI®

Business activity falls at softer pace, but demand conditions remain weak

Key findings

Slowest decline in output for three months

Employment contracts at joint-fastest pace in 2021

Cost pressures strengthen

Data were collected 06-21 December 2021.

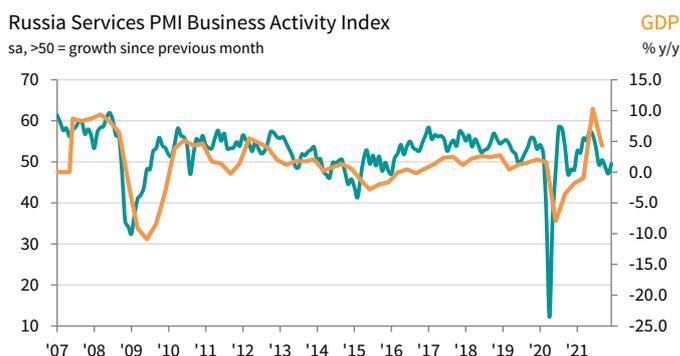
Business activity across the Russian service sector contracted further at the end of 2021, according to December PMI® data. The decrease in output was only marginal, however. Demand conditions remained subdued as domestic and foreign customers reduced their orders. Subsequently, pressure on capacity dwindled as backlogs of work fell at the sharpest pace for four months. Reflecting excess capacity, service providers cut their workforce numbers at the joint-steepest rate in 2021. Weak demand weighed on business confidence which fell to the lowest since October 2020.

At the same time, cost burdens rose markedly and at the fastest pace since May. In an effort to drive new sales, firms increased their selling prices at the softest rate since August.

The seasonally adjusted IHS Markit Russia Services Business Activity Index registered 49.5 in December, up from 47.1 in November, to signal a marginal contraction in business activity across the Russian service sector. The fall in output was the slowest for three months, but was reportedly driven by weak demand conditions and another monthly decrease in new business.

December data indicated a solid fall in new orders received by Russian service providers. The rate of decline was broadly in line with that seen in November and as the second-fastest since October 2020. Companies noted that lower client demand stemmed from rising virus cases and COVID-19 restrictions.

Firms registered a renewed decrease in foreign client demand in December, as new export orders fell. Despite being only marginal, the pace of contraction was the steepest since



Sources: IHS Markit, FSSS.

January.

In line with a reduction in new order inflows, Russian service providers cut their workforce numbers at the end of the year. Employment fell for the third time in the last five months, and at the joint-sharpest pace in 2021. Some companies also noted that the decrease was linked to cost-cutting efforts amid soaring input prices.

Job shedding was largely driven by firms having sufficient capacity to process incoming new work, as the level of incomplete business fell at the fastest pace for four months in December.

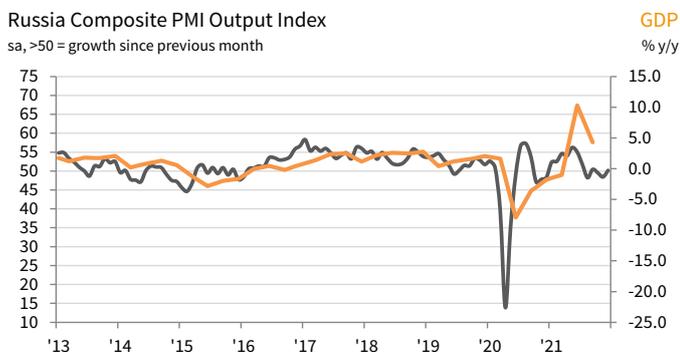
Meanwhile, cost burdens rose at a substantial pace at the end of 2021. The rate of input price inflation quickened for the fourth month running to the steepest since May. Alongside unfavourable exchange rates, firms stated that higher input prices were due to greater transportation and wage bills, and increased subcontractor charges.

Despite a faster rise in input costs, Russian service providers recorded the slowest uptick in output prices since August in December. Nevertheless, the rate of charge inflation was sharp overall as many firms sought to partially pass-through costs to clients.

Weak demand conditions, pandemic uncertainty and fears of further restrictions on movement weighed on optimism in December. The degree of confidence in the outlook for output over the coming year was the least optimistic since October 2020.

IHS Markit Russia Composite PMI®

Renewed, albeit fractional, expansion in private sector output in December



Sources: IHS Markit, FSSS.

The IHS Markit Russia Composite PMI Output Index* posted 50.2 in December, up from 48.4 in November, to signal a fractional upturn in private sector business activity. The increase in output was driven by a further expansion in manufacturing production, while the drag from falling service sector activity eased.

New business, however, remained in contraction. The fall in new orders was the second-fastest in over a year as client demand was weighed down by COVID-19 restrictions (particularly in the service sector). New export orders slipped back into decline in December, although the rate of contraction was softer than those seen earlier in the year.

Sharper increases in cost burdens at manufacturers and service providers led the rate of input price inflation to accelerate to the fastest since May. That said, that pace of charge inflation was broadly in line with that seen in November. Although manufacturers registered an uptick in the rate of increase in selling prices, service providers saw softer rises.

Muted demand conditions led to sufficient capacity at private sector firms to process incoming new work. As a result, backlogs of work fell at the fastest pace since August and there was a renewed decline in employment centred on the service sector.

Finally, pandemic uncertainty and weak demand conditions weighed on business confidence at the end of 2021. The degree of optimism across the private sector slipped to the lowest since October 2020.

*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

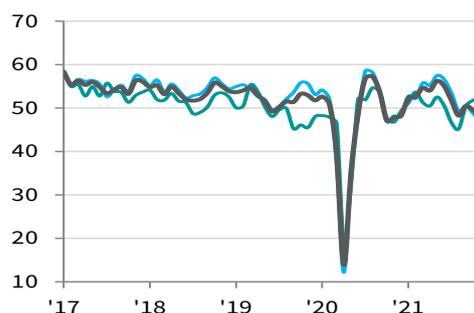
Commenting on the latest survey results, Siân Jones, Senior Economist at IHS Markit, said:

"Russian service providers registered a downbeat end to 2021, as output and new orders continued to contract in December amid subdued demand conditions. The sector has been particularly hard-hit by COVID-19 restrictions, especially those in consumer-facing industries. Weak domestic and foreign client demand led to spare capacity, with job shedding being ramped up as a result.

"Meanwhile, cost inflationary pressures mounted once again. The rate of input price inflation was the steepest since May, but tough demand conditions meant service providers were more reluctant to pass hikes in input prices through to clients than in previous months. Subsequently, the pace of charge inflation softened to a four-month low.

"Headwinds facing Russian private sector firms will be significant going into 2022, as high inflation, growing COVID-19 cases and weak demand threaten the near-term outlook. At the composite level, business confidence sank to the lowest since October 2020. Our current forecast estimates that the economy will grow 3.4% on the year in 2022, with the overall expansion slowing from the 4.1% expected in 2021."

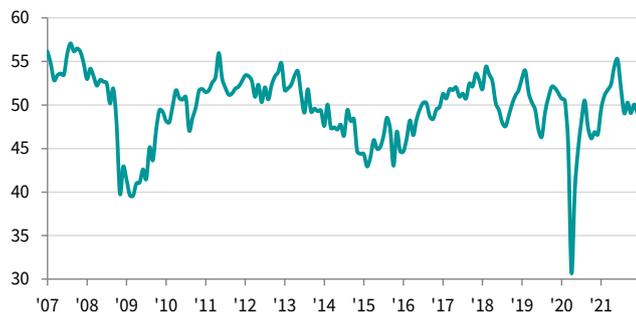
Russia PMI Output Index
Composite / Manufacturing / Services
sa, >50 = growth since previous month



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

December data were collected 06-21 December 2021.

Survey data were first collected October 2001.

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