

Purchasing Managers' Index™
MARKET SENSITIVE INFORMATION
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IHS Markit Russia Services PMI® – (with Composite PMI® data)

Service sector business activity growth accelerates to 11-month high

Key points:

- Output and new business both expand at a sharp rate
- Price pressures intensify
- Business expectations improve to strongest since July 2011

Data collected October 12-29

October data indicated a sharp increase in business activity across the Russian service sector. The rate of expansion accelerated amid a quicker rise in new business, with both increasing the most since November 2017. Subsequently, employment levels rose for the first time since May and the contraction in outstanding business eased to the weakest for three months. Meanwhile, input price inflation quickened to a marked rate, while output charges increased at a solid pace. Service providers were strongly optimistic, with the level of confidence improving to its highest in over seven years.

The **IHS Markit Russia Services Business Activity Index** – a single-figure measure designed to track changes in total Russian services activity – posted 56.9 in October, up from 54.7 in September. The latest reading signalled a sharp expansion in output, and one that was the fastest since November 2017. The start of the final quarter of the year saw the growth rate outpace the average over the current 33-month sequence of expansion. Panellists suggested the rise in output was attributable to a faster increase in new orders.



The **IHS Markit Russia Composite Output Index** (covering both manufacturing and services) posted 55.8 in October, up from 53.5 in September. The latest upturn across the economy was supported by faster output expansions in both the manufacturing and service sectors. Moreover, production growth reached a six-month high.

A stronger upturn in new business received by Russian service providers was generally linked to more robust customer demand and new client acquisitions. Moreover, the rate of growth quickened and was well above the long-run series average. The pace of expansion was the second-fastest in six years. Goods producers also recorded a quicker rise in new orders, with the rate of growth the second-fastest in 2018 so far.

Subsequently, there was an increase in service sector employment for the first time since May. That

said, the rise in workforce numbers was only fractional overall. Manufacturers meanwhile registered a solid rise in employment in October. Moreover, the rate of factory job creation was the strongest since January 2017.

Meanwhile, the level of outstanding business at service sector firms contracted for the eleventh consecutive month as firms were reportedly able to clear backlogs successfully. Nonetheless, the level of incomplete work fell at the weakest rate for three months amid faster new order growth. Manufacturing firms also saw a fall in the level of outstanding business, albeit only fractional and the weakest in the current 14-month sequence of contraction.

October data indicated a marked rise in input prices paid by service providers, with the rate of inflation accelerating for the second month running to the second-fastest since March 2015. The pace of increase was above the long-run series trend and reportedly stemmed from an unfavourable exchange rate, which pushed up imported input prices, and higher wage costs. Although marked, the rise in inputs prices noted by manufacturing firms was the softest since March in October.

Subsequently, service sector firms looked to pass greater cost burdens on to clients through higher charges. The rate of charge inflation quickened to a three-month high and was solid overall. Output price inflation at manufacturers was below the series trend, having eased to the weakest in seven months.

Business expectations among service providers towards the year ahead improved in October, with the degree of confidence increasing to the highest since July 2011. Goods producers remained strongly optimistic in October, with the degree of optimism at its second-highest since May 2015.

Comment:

Commenting on the Russia Services PMI survey data, **Siân Jones, Economist at IHS Markit**, which compiles the survey, said:

“Russian service sector business activity growth continued to build momentum in October. Notably, output was driven by stronger domestic demand, with total new business rising at the quickest pace in close to a year.

“Capacity pressures became evident, with employment entering growth territory for the first time since May.

“Meanwhile, rates of input cost and output price inflation accelerated, with former reading the second-fastest pace since March 2015.

“Encouragingly, demand conditions across the Russian economy strengthened in October. The IHS Markit Russia Composite Output Index signalled a sharp expansion that was the quickest in the year-to-date.”

-Ends-

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Note to Editors:

The IHS Markit Russia Service PMI is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 300 private service sector companies. The panel has been carefully selected to accurately replicate the true structure of the services economy. The IHS Markit Russia Composite PMI is a weighted average of the Manufacturing Output Index and the Services Business Activity Index, and is based on original survey data collected from a representative panel of over 600 companies based in the Russian manufacturing and service sectors.

Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

The Purchasing Managers' Index (PMI) survey methodology has developed an outstanding reputation for providing the most up-to-date possible indication of what is really happening in the private sector economy by tracking variables such as sales, employment, inventories and prices. The indices are widely used by businesses, governments and economic analysts in financial institutions to help better understand business conditions and guide corporate and investment strategy. In particular, central banks in many countries use the data to help make interest rate decisions. PMI surveys are the first indicators of economic conditions published each month and are therefore available well ahead of comparable data produced by government bodies.

IHS Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from IHS Markit. Please contact economics@ihsmarkit.com.

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