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## IHS Markit Russia Services PMI®

Including IHS Markit Russia Composite PMI®

# August sees first contraction in activity since December

### Key findings

Marginal decline in output as new orders rise only fractionally

Inflationary pressures ease

Business confidence drops to nine-month low

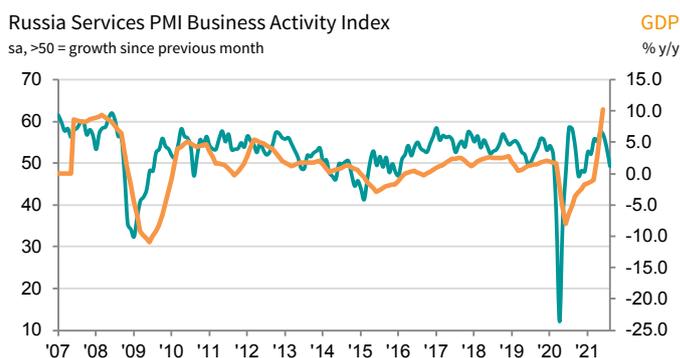
Data were collected 12-26 August 2021

August PMI® data indicated a renewed contraction in Russian service sector business activity amid reports from some firms of softer demand conditions. The decline in output was the first in 2021 to date as new order growth eased to only a fractional pace. Foreign client demand was a source of strength, however, as new export business rebounded back to growth. That said, less robust demand conditions domestically weighed on companies' decisions to hire additional staff as employment fell. The decrease coincided with a sharp depletion in backlogs of work, which signalled little pressure on capacity. At the same time, business confidence dropped to a nine-month low amid concerns regarding inflation and future demand.

Meanwhile, inflationary pressures eased amid slower rises in input prices and output charges. Rates of increase remained historically elevated, nonetheless.

The seasonally adjusted IHS Markit Russia Services Business Activity Index registered 49.3 in August, down notably from 53.5 in July. The latest data signalled the first decline in Russian service sector output since December 2020, albeit only marginal overall. Where a decrease in business activity was reported, firms linked this to softer demand conditions and a further slowdown in new order growth.

The upturn in new business softened to only a fractional pace during August. The rate of expansion eased for the third month running from May's recent high and was the slowest in the current eight-month sequence of growth. Although firms continued to note client interest, overall customer demand showed almost no improvement from the month before.



Sources: IHS Markit, FSSS.

At the same time, new export orders posted a renewed expansion in August. Although rising at only a marginal rate, the increase in foreign client demand was the fifth in six months.

Meanwhile, the rate of cost inflation eased to a seven-month low but remained above its historical average. The marked rise was often attributed to supplier price hikes and greater utility costs.

In a similar manner, the pace of increase in selling prices softened during August. The rate of charge inflation was sharp overall and faster than the series trend, despite easing to a six-month low. Panellists commonly mentioned that increases in output prices were due to efforts to pass on higher costs to clients where possible.

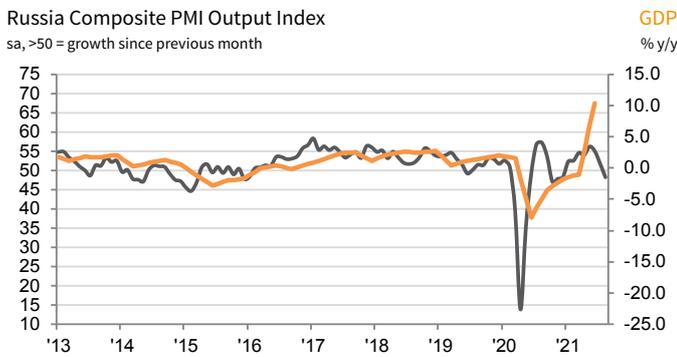
At the same time, pressure on capacity was reduced further, as service providers indicated a sharp decline in incomplete business. The fall in backlogs of work reportedly stemmed from a slower rise in new orders and sufficient capacity to process incoming work in a timely manner.

Reflecting this decrease, firms were hesitant to expand their workforce numbers, as employment fell for the first time since January. Although only marginal, the reduction in workforce numbers marked a turnaround from the strong expansion seen in the second quarter.

Finally, business expectations at service providers worsened during August. Although still broadly upbeat regarding the outlook for output, inflation and demand concerns led to the weakest degree of confidence since November 2020.

## IHS Markit Russia Composite PMI®

### Renewed contraction in private sector output in August



Sources: IHS Markit, FSSS.

The IHS Markit Russia Composite PMI Output Index\* posted 48.2 in August, down from 51.7 in July, to signal the first decline in Russian private sector business activity in 2021 so far. The fall in output was broad-based by sector.

The overall decline in output was driven in part by a decrease in private sector new business, with both domestic and foreign client demand weakening.

In line with a drop in new orders, pressure on capacity waned further. The rate of decline in backlogs of work was sharp overall, with lower business requirements also leading to a fall in workforce numbers across the manufacturing and service sectors.

Input cost inflation remained historically elevated during August, as supplier price hikes and material shortages drove prices higher. That said, the rate of increase was the slowest for seven months. Output charges rose sharply, and at a pace that matched that seen in July.

In response to marked rates of inflation and softer demand conditions, firms lowered their output expectations for the coming year. The degree of confidence was the weakest since November 2020 despite a pick-up in optimism among manufacturers.

\*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

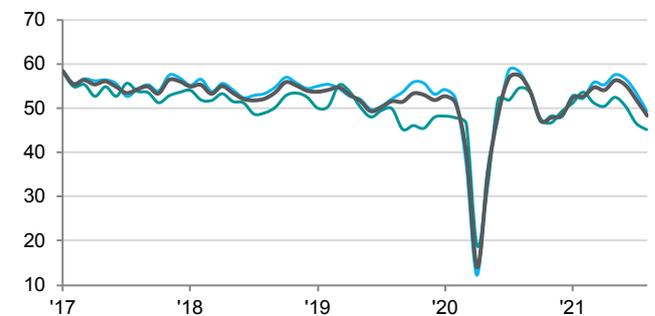
Commenting on the latest survey results, Siân Jones, Senior Economist at IHS Markit, said:

"Russian service providers signalled more challenging demand conditions during August, with business activity contracting as a result. Pressure on capacity eased further, leading firms to reduce their workforce numbers after a six-month period of job creation.

"On a more positive note for services firms, inflationary pressures softened somewhat from the highs seen in recent months. Nonetheless, companies were still concerned regarding future price hikes, thereby dampening business expectations for the year ahead.

"The decline in activity was broad-based across the private sector, according to composite PMI data. Despite rates of inflation easing, elevated rises in prices will be taken into consideration at the upcoming September meeting of the Central Bank of Russia. Our current forecast expects a further hike in interest rates as consumer price inflation remains above target."

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](mailto:economics@ihsmarkit.com).

Survey dates and history

August data were collected 12-26 August 2021.

Survey data were first collected October 2001.

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Purchasing Managers' Index® (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends.

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