News Release

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IHS Markit Russia Services PMI®

Including IHS Markit Russia Composite PMI®

Fastest contraction in business activity for ten months in October

Key findings

Renewed falls in output and new orders

Inflationary pressures strengthen

Employment returns to contraction

Data were collected 12-27 October 2021.

October PMI® data indicated a decrease in business activity across the Russian service sector, the second decline in output in three months. The renewed fall in activity stemmed from weak client demand and a return to contraction in new business. The downturn in new work was the first seen in 2021 so far, albeit only marginal overall. Subdued demand conditions led to a further decline in backlogs of work, while reduced pressure on capacity resulted in a renewed fall in employment. At the same time, rates of input price and output charge inflation accelerated as greater supplier and utility costs were partially passed through to clients.

Concurrently, business confidence moderated from September’s 28-month high and dropped below the long-run series average amid concerns regarding the longevity of ongoing COVID-19 restrictions and rising cases.

The seasonally adjusted IHS Markit Russia Services Business Activity Index registered 48.8 in October, down from 50.5 in September, to signal the fastest contraction in Russian service sector business activity since December 2020. Subdued client demand reportedly drove the decline, as firms also mentioned the negative impact of the pandemic on activity. The rate of decrease in output was only marginal, however.

Contributing to the decline in activity was a renewed fall in new orders at the start of the fourth quarter. The decrease was the first in 2021 so far and attributed by surveyed businesses to weaker client demand.

In contrast, new export orders returned to expansion during October. Service sector firms registered only a modest rise in foreign client demand, but one that was the strongest for four months.

Meanwhile, input costs rose markedly. October data signalled an accelerated increase in input prices, as companies noted that greater supplier and utility surcharges pushed overall cost burdens up. The rate of inflation was the fastest since May and was above the series trend.

Despite weak demand conditions, service providers were still able to partially pass on higher costs to customers at the start of the fourth quarter. The rate of output charge inflation was sharp overall and the quickest for four months.

At the same time, service providers registered a renewed decrease in employment. The fall in workforce numbers was the second in three months but only marginal overall. Where firms recorded a decline in staffing numbers, this was linked to efforts to cut costs and an associated increase in redundancies.

Job shedding did not translate into greater pressure on capacity, however, as backlogs of work fell at a quicker pace in October. The decline in outstanding business was attributed to weaker demand conditions and a decrease in new order inflows.

Russian service providers remained broadly optimistic of an increase in output over the coming year. That said, the degree of confidence softened amid concerns regarding the pandemic and future demand.
Renewed fall in private sector business activity in October

The IHS Markit Russia Composite PMI Output Index* posted 49.5 in October, down from 50.5 in September, to signal a renewed contraction in private sector business activity. The fall in output was the second in three months, albeit only fractional overall. A quicker expansion in manufacturing production was outweighed by a renewed contraction in service sector activity. Similarly, a return to decline in new business at service providers sparked a marginal fall in private sector new orders at the start of the fourth quarter. Overall foreign client demand also weakened as the downturn in manufacturing new export orders accelerated.

Inflationary pressures remained marked in October. The pace of increase in input costs quickened to a four-month high amid higher utility and supplier prices. Similarly, the rate of charge inflation gathered pace.

Despite a renewed expansion in employment at manufacturing firms, the fractional rise was outweighed by a decline in workforce numbers at service providers. Nevertheless, backlogs of work continued to fall across the private sector.

A resurgence in COVID-19 cases dampened service sector business confidence, while manufacturers noted slightly stronger output expectations for the year ahead.

*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 indicated a dour start to the fourth quarter, as business activity sank into contraction once again. A resurgence in virus cases hit the sector further as client demand weakened and new business fell for the first time in 2021. The bright spot came from foreign demand, which returned to growth in October.

“Meanwhile, firms sought to cut costs, and, amid evidence of slack in capacity, reduced their workforce numbers. Concerns regarding ongoing restrictions and the course of the pandemic also hampered business confidence, which dropped from September’s 28-month high.

“Inflationary pressures continued to tick higher, as rising utility and supplier costs led prices to increase steeply. The rate of service sector cost inflation was the fastest for five months, whilst firms passed through higher input prices to their clients at the sharpest pace since June. We currently expect consumer prices to rise by 6.4% on the year in 2021, with the Bank of Russia hoping that their recent 0.75% increase in the policy rate will quell steep upticks in prices.”
IHS Markit Russia Services PMI®

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 estates 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 service 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
October data were collected 12-27 October 2021.
Survey data were first collected October 2001.

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