

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

Service sector business activity growth picks up to three-month high

Key points:

- Output and new orders grow solidly in August
- Rate of job shedding accelerates
- Inflationary pressures ease

Data collected August 13-29

August data signalled a solid rise in business activity across the Russian service sector. Moreover, the rate of growth accelerated to a three-month high. New business also increased solidly despite the pace of expansion easing to the second-weakest since July 2017. The slower rise in new orders led to less pressure on capacity, with both backlogs and employment contracting further. Meanwhile, rates of input price and output charge inflation softened. Business confidence also dipped amid fragile demand conditions.

The **IHS Markit Russia Services Business Activity Index** – a single-figure measure designed to track changes in total Russian services activity – posted 53.3 in August, up from 52.8 in July. Output increased at an accelerated pace that was the fastest since May. Where a rise in business activity was reported, panellists linked this to greater new order volumes. Although solid overall, the rate of expansion remained below the long-run series average.

The **IHS Markit Russia Composite Output Index** (covering both manufacturing and services) registered 52.1 in August, up from 51.7 in July. The latest reading signalled a pick-up in growth



momentum at the composite level, driven by a stronger services expansion. The rate of decline in manufacturing output also eased during the month.

New business received by service providers continued to rise in August, extending the current trend of increase that began in February 2016. Reflective of signs of fragile client demand, the rate of expansion eased to the second-weakest since July 2017. Anecdotal evidence suggested growth was due to the acquisition of new clients, although some respondents noted less favourable market conditions. The increase was broad-based nonetheless, with only Real Estate & Business Services firms signalling a contraction. Manufacturers, however, indicated a third successive monthly decline in client demand.

Lacklustre demand provided an incentive for services firms to streamline their workforce

numbers, with the rate of job shedding quickening to the fastest since April 2016. The fall in employment was attributed to redundancies amid weaker new business growth and evidence of spare capacity. Meanwhile, goods producers signalled a modest decrease in workforce numbers, with the rate of job shedding softening from the previous survey period.

With output increasing at a faster rate than new business, services firms were able to make inroads into their backlogs in August. The rate of contraction accelerated to the quickest since March 2016. The level of outstanding business also decreased at a quicker rate among manufacturers.

On the price front, input costs faced by service providers rose steeply in August. Anecdotal evidence suggested the increase was linked to exchange rate movements as well as higher fuel and utility costs. That said, the rate of input price inflation dipped to a five-month low and was below the series average. In contrast, manufacturing firms registered a faster rise in input costs, with the rate of inflation reaching a three-month high.

Services firms partly passed higher costs on to clients through greater selling prices. Charge inflation softened to a six-month low, however. Selling prices also rose further at Russian goods-producers. Factory output charges increased at a steep and faster rate.

Business confidence among service providers towards the outlook remained strongly positive in August, despite the degree of optimism dipping to a 12-month low. Panellists linked growth forecasts to advertising and new products. Manufacturers were also generally optimistic, with the degree of confidence reaching a four-month high.

Comment:

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

“Russian service sector business activity growth accelerated in August, with output increasing at a solid rate. New business also expanded solidly, but the pace of growth eased from July due to more fragile demand conditions in some areas.”

“As was seen in manufacturing, there was further evidence of spare capacity among service providers, as employment and backlogs continued to contract.”

“Despite a sharp rise in cost burdens, services firms raised charges only moderately amid reports of greater competition and fragile client demand.”

“Although the latest IHS Markit Russia Composite Output Index picked up from July’s 26-month low, signs of greater spare capacity and a weaker rate of new order growth could weigh on future expansion.”

-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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