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IHS Markit Russia Services PMI®

Including IHS Markit Russia Composite PMI®

Business activity growth accelerates to seven-month high in March

Key findings

Faster expansions in output and new orders

Price gauges at their highest since January 2019

Employment rises at quickest rate since November 2019

Data were collected 12-29 March 2021.

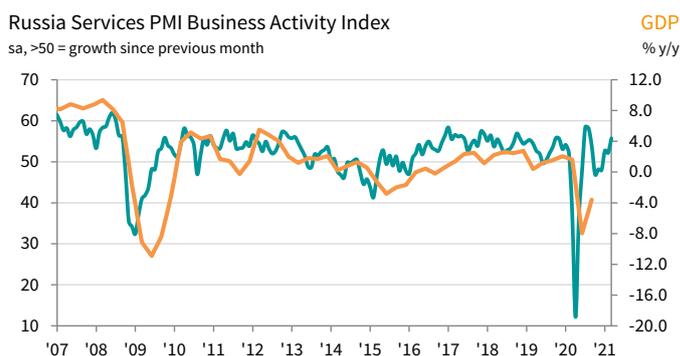
March PMI® data indicated a faster rise in business activity across the Russia service sector. The upturn in output was the strongest since August 2020 and largely driven by a quicker increase in new orders. The expansion in client demand came from both domestic and foreign customers, as new business from abroad rose at the sharpest pace since October 2019. Price pressures remained historically elevated, however. Cost burdens rose at the steepest rate since the VAT hike in January 2019, with firms seeking to pass on higher input prices to customers through a sharp rise in charges.

Meanwhile, service providers boosted their workforce numbers at the fastest pace since November 2019 amid greater new sales.

The seasonally adjusted IHS Markit Russia Services Business Activity Index registered 55.8 in March, up from 52.2 in February, to signal the greatest increase in service sector output for seven months. The rise in business activity was largely linked to stronger client demand amid looser coronavirus disease 2019 (COVID-19) restrictions.

March data indicated a solid rise in new business across the Russian service sector. The expansion was the fastest since August 2020, with panellists stating that greater client demand from existing clients, alongside the acquisition of new customers supported sales growth.

At the same time, foreign client demand ticked higher. The upturn in new export orders was the first in over a year and the sharpest since October 2019. Some companies noted that the increase was linked to the release of new products and business lines.



Sources: IHS Markit, FSSS.

Cost burdens faced by Russian service providers increased markedly in March. The rise in input prices was often attributed to higher supplier costs amid shortages and delays, and unfavourable exchange rate movements. Moreover, the rate of cost inflation was the fastest since January 2019, the period immediately following the hike in VAT.

As a result, companies raised their selling prices at a sharper rate at the end of the first quarter. Stronger demand conditions also allowed firms to pass on a greater proportion of the increase in cost burdens to clients. The rate of charge inflation was steep overall and the quickest since the opening month of 2019.

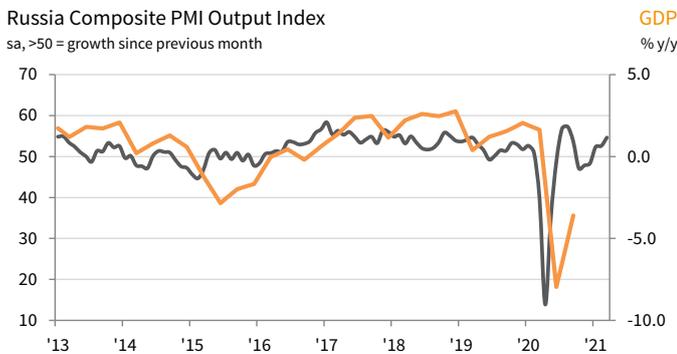
Meanwhile, service sector firms expanded their workforce numbers for the second successive month in March. Although only modest overall, the rate of job creation was the most marked since November 2019. Anecdotal evidence suggested the rise was due to greater new orders.

Subsequently, firms continued to register a decline in backlogs of work. The contraction in the level of outstanding business was solid overall and accelerated to the quickest for four months.

Finally, service providers were strongly upbeat in their expectations regarding business activity over the coming year, despite confidence easing to a three-month low. Optimism was attributed to hopes of a substantial economic recovery once COVID-19 restrictions are lifted.

IHS Markit Russia Composite PMI®

Solid expansion in private sector business activity in March



Sources: IHS Markit, FSSS.

The IHS Markit Russia Composite PMI Output Index* posted 54.6 in March, up from 52.6 in February, to signal the steepest rise in private sector business activity since August 2020.

Contributing to the upturn in output was a stronger increase in new business received by private sector companies in March. Despite a slower expansion at manufacturers, the overall rate of growth quickened to a seven-month high. Meanwhile, export orders fell further – albeit only marginally – amid challenging external demand conditions for goods producers.

At the same time, price pressures remained historically elevated. The rate of cost inflation eased slightly, but firms passed through higher input prices where possible, with the rate of increase in charges the fastest since January 2019.

Despite evidence of spare capacity amid a further fall in backlogs of work, Russia private sector firms increased their workforce numbers at a marginal pace in March.

Output expectations remained upbeat overall, although the degree of confidence among manufacturers and service providers moderated slightly. Optimism continued to reportedly stem from hopes of an economic recovery as 2021 progresses.

*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

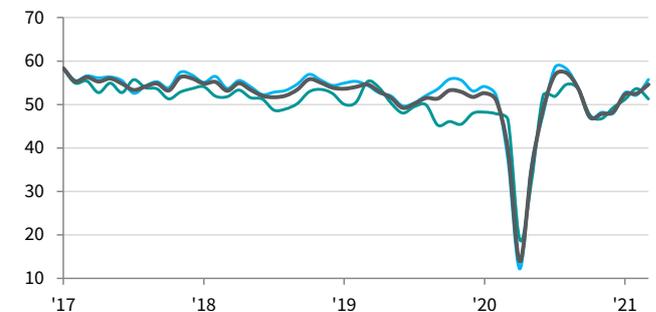
Commenting on the latest survey results, Siân Jones, Senior Economist at IHS Markit, said:

"Russian service providers signalled stronger client demand in March, as new orders picked up at the fastest pace since last August. The expansion was not just led by domestic customers, however, as new business from abroad rose at the sharpest rate since October 2019. At the composite level, service sector firms drove the overall upturn in private sector activity, as manufacturers lost some growth momentum.

"Encouragingly, greater business activity at service providers also led to an increase employment. Pressure on capacity was reduced once again, as service sector staffing numbers increased at the quickest pace since November 2019.

"As earlier reported by their manufacturing counterparts, service providers registered a marked rise in cost burdens at the end of the first quarter. Charges also increased steeply, and at a rate not seen since the VAT hike in early-2019."

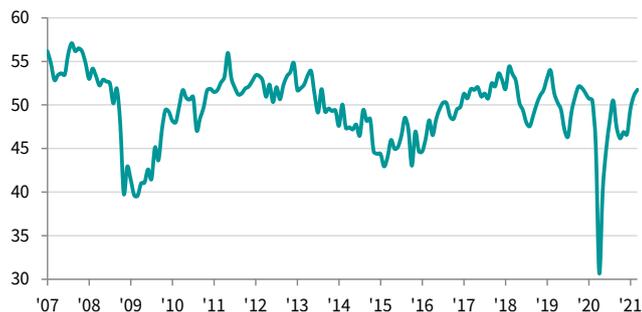
Russia PMI Output Index
Composite / Manufacturing / Services
sa, >50 = growth since previous month



Source: IHS Markit.

Russia Services PMI Employment Index

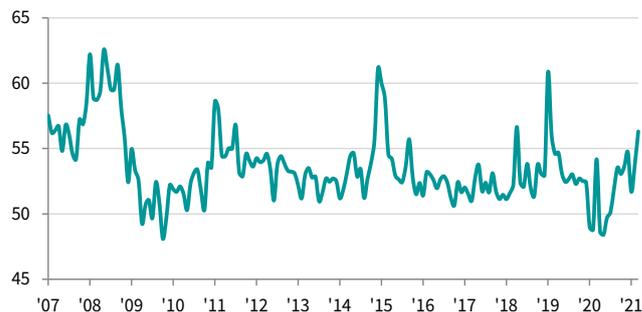
sa, >50 = growth since previous month



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

March data were collected 12-29 March 2021.

Survey data were first collected October 2001.

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