

Embargoed until 0900 MSK (0600 UTC) 5 October 2020

# IHS Markit Russia Services PMI®

Including IHS Markit Russia Composite PMI®

## Business activity grows at slower rate in September

### Key findings

Output expansion softens amid slower new business growth

Employment shows renewed decline

Cost pressures remain strong

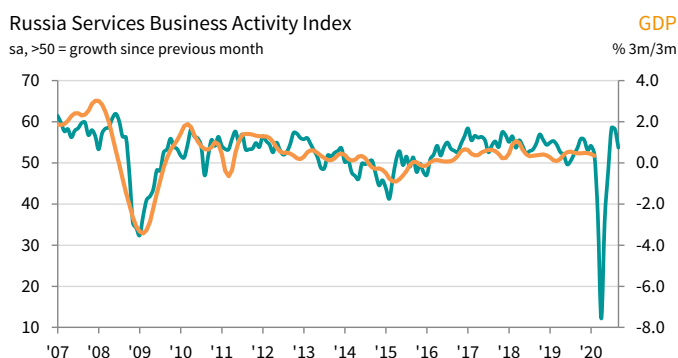
Data were collected 11-28 September 2020.

September PMI® data indicated a further, albeit slower, expansion in business activity across the Russian service sector. The softer rise in output was often linked to slower new business growth. Nonetheless, the respective rates of increase were solid overall. Total sales were primarily supported by domestic demand, as new export orders continued to decline. Concerns regarding the longevity of any recovery weighed on business confidence, which dropped to a three-month low and was historically subdued. At the same time, firms reduced their workforce numbers amid sufficient capacity to process new business.

On the price front, the rate of input price inflation was unchanged from August and sharp overall. Firms partially passed on higher costs to clients through a solid rise in selling prices.

The seasonally adjusted IHS Markit Russia Services Business Activity Index registered 53.7 in September, down notably from 58.2 in August, but still signalling a solid expansion in output. The latest index reading rounded off a strong quarter for the Russian service sector, as the quarterly average picked up to the highest since the opening three months of 2017. Growth in business activity was often linked to a further rise in new order inflows.

New business growth was solid overall at the end of the third quarter. Firms continued to note that new client wins and the resumption of operations at customers drove the upturn in new sales. That said, the rate of increase slowed to a three-month low. New export orders continued to weigh on total sales, with new business from abroad falling for the seventh



Sources: IHS Markit, FSSS.

month running, and at a solid pace.

Despite new orders rising further, companies signalled a renewed reduction in staffing numbers in September. Panellists stated that the fall in employment was due to sufficient capacity to work through business inflows. The decrease was the quickest since June, but modest compared with the falls in the second quarter.

At the same time, backlogs of work declined at a faster pace. That said, the fall was still only marginal overall and much slower than the record contraction seen in April.

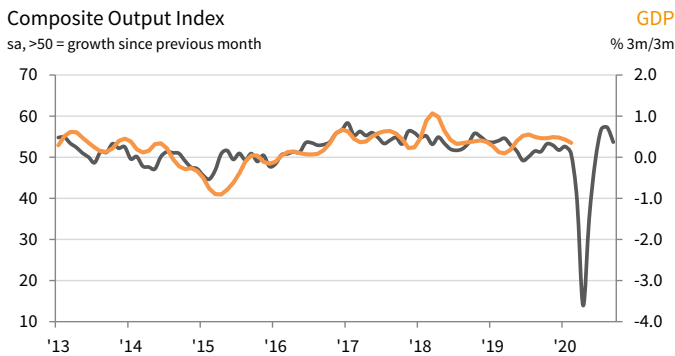
Meanwhile, average cost burdens increased at a sharp pace that matched that seen in August. The rate of inflation was the joint-quickest for six months, as firms linked input price rises to greater utility and supplier costs, alongside unfavourable exchange rate movements.

Firms were able to partially pass higher costs on to clients, however. Selling prices increased solidly, and at the fastest rate since March.

Finally, business confidence among service providers moderated in September amid concerns regarding the longevity of any economic recovery. Firms remained optimistic of an increase in business activity over the coming year, but the degree of positive sentiment was historically muted.

## IHS Markit Russia Composite PMI®

### Private sector business activity growth eases in September



Sources: IHS Markit, FSSS.

Slower expansion in output driven by softer upturns in the manufacturing and service sectors.

The IHS Markit Composite PMI Output Index\* posted 53.7 in September, down notably from 57.3 in August. The rate of growth was solid, despite easing to the slowest in the current three-month period of expansion.

Similarly, private sector firms registered a slower rise in new business. Alongside a softer increase in service sector client demand, manufacturers registered a drop in new order inflows. Foreign client demand also weighed on total sales.

Manufacturing and service sector firms cut their workforce numbers in September, as companies reported sufficient capacity to process new orders.

Private sector firms remained optimistic regarding the outlook for output at the end of the third quarter, but the degree of confidence moderated amid concerns surrounding the longevity of any recovery.

Nonetheless, private sector companies registered a faster rise in output charges. The increase in selling prices largely reflected further sharp rises in cost burdens.

\*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.

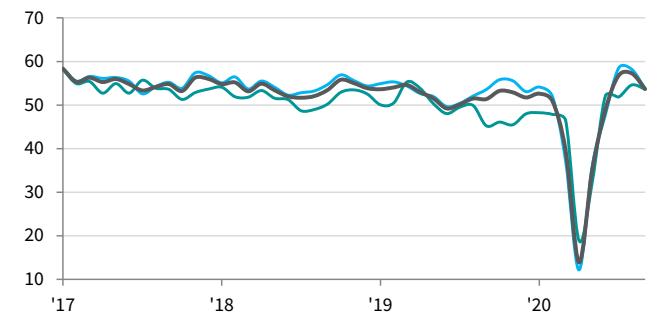
### Comment

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

"September data signalled a loss of momentum in Russian service sector business activity growth. Slower output growth was linked to softer expansions in client demand, as new export orders weighed further on total sales. Subdued business confidence also dragged on hiring, as service sector employment showed a renewed decline.

"At the composite level, business activity growth eased, as both manufacturing and service sector expansions slowed. Meanwhile, in line with a higher rate of official inflation in August, firms registered quicker increases in average charges for goods and services in September. Panellist reports of currency volatility and cost pressures from supplier price hikes mean we are not likely to see a further interest rate cut by the Central Bank of Russia in the coming months. Our latest forecast expects the base rate to remain at 4.25% for the rest of 2020."

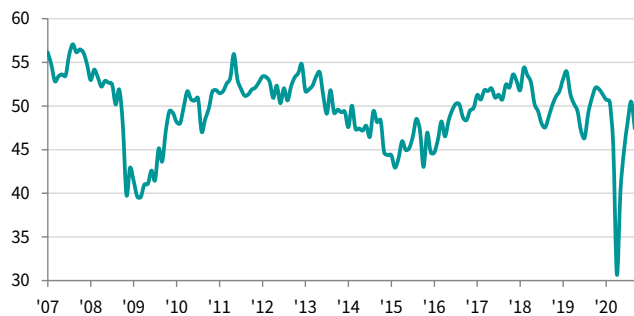
Output Index  
Composite / Manufacturing / Services  
sa, >50 = growth since previous month



Source: IHS Markit.

Services Employment Index

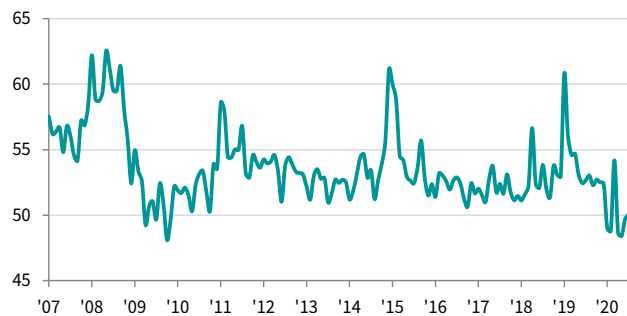
sa, >50 = growth since previous month



Source: IHS Markit.

Services Prices Charged Index

sa, >50 = inflation since previous month



Source: IHS Markit.

Contact

Siân Jones  
Economist  
IHS Markit  
T: +44 1491 461 017  
[sian.jones@ihsmarkit.com](mailto:sian.jones@ihsmarkit.com)

Katherine Smith  
Public Relations  
IHS Markit  
T: +1 781 301 9311  
[katherine.smith@ihsmarkit.com](mailto:katherine.smith@ihsmarkit.com)

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

September data were collected 11-28 September 2020.

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. [ihsmarkit.com/products/pmi.html](https://ihsmarkit.com/products/pmi.html).