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IHS Markit Russia Services PMI®
Including IHS Markit Russia Composite PMI®

Business activity growth softens amid slower rise in new orders

Key findings
- Output expansion eases to seven-month low
- Fastest decrease in output charges since late-2009
- Optimism strengthens but remains historically muted

Russian service sector firms registered a slower rise in business activity in February amid softer growth in domestic demand. Although new export orders rose at a faster pace, total sales showed the weakest expansion for five months. As a result, firms increased workforce numbers at only a fractional rate as backlogs of work contracted further. Although service providers registered a slightly stronger degree of optimism, confidence remained well below the long-run series average.

On the price front, output charges fell for the second month running as muted input prices rises and greater competition weighed on pricing decisions.

The seasonally adjusted IHS Markit Russia Services Business Activity Index registered 52.0 in February, down from 54.1 at the start of the year. The latest expansion in business activity extended the current sequence of growth that began in July 2019, but was the slowest for seven months amid reports from some firms of challenging domestic demand conditions. That said, the sustained increase was linked to the launch of new service lines.

New growth was supported by a faster expansion in foreign client demand midway through the first quarter of the year. Although the upturn in total sales softened to a five-month low, new export orders rose at the sharpest rate since last October.

As a result of softer demand conditions and increased competition, service providers registered a second successive monthly decrease in output charges in February. The rate of decline quickened slightly and was the fastest since October 2009, despite being only marginal overall.

Lower output prices also reportedly stemmed from a relatively subdued rise in cost burdens. The rate of input price inflation was broadly in line with that seen in January but well below the long-run series trend. The vast majority of survey respondents registered no change in costs compared to those seen in January.

Russian service sector firms recorded a greater degree of confidence in a rise in output over the coming 12 months in February. Positive sentiment was attributed to larger client bases, greater marketing activity and investment in new service lines. Although the level of optimism strengthened from January, when it recorded a three-year low, it remained below the series trend and was historically muted.

Despite stronger business confidence, the rate of service sector job creation eased in February and was only fractional overall. The pace of employment growth was the slowest in the current six-month sequence of expansion. Nonetheless, where an increase in workforce numbers was reported, firms linked this to greater business requirements following a further rise in new orders.

Softer employment growth also stemmed from a further reduction in pressure on capacity, as backlogs of work fell at a moderate pace.
A slower expansion in service sector business activity and a further contraction in manufacturing production weighed on overall private sector growth in February.

The IHS Markit Composite PMI Output Index* posted 50.9 in February, down from 52.6 at the start of the year. The rate of growth signalled was the slowest since July 2019 amid less robust demand conditions.

At the same time, new order growth softened midway through the first quarter as foreign client demand fell for the tenth consecutive month. Although modest, the rate of expansion of overall new business was the slowest since last November.

A fractional decrease in composite employment was driven by a solid contraction in workforce numbers across the manufacturing sector. The fall coincided with a further reduction in strain on capacity, as shown by a drop in backlogs.

Despite a moderation in output expectations among manufacturers, overall business confidence strengthened to a three-month high.

Finally, historically subdued rises in cost burdens and greater competition resulted in a second successive decrease in private sector output charges. That said, manufacturers increased factory gate charges marginally.

*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.

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

“The Russian service sector was weighed down by slower growth of domestic demand in February, with a faster rise in export orders contrasting with a weaker expansion in overall new business. As such, service providers were relatively cautious in their output expectations for the year ahead and efforts to expand workforce numbers.

“Much like their manufacturing counterparts, service providers saw historically muted increases in costs burdens midway through the first quarter. Reflecting this, greater competition led to a decline in service sector output charges amid efforts to retain and attract clients.

“Our latest forecasts point towards economic growth of 1.9% in 2020, with the overall expansion set to accelerate from the recently-released figure of 1.3% in 2019. That said, headwinds in the global economy could present downside risks to this forecast as the year progresses.”
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.

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
February data were collected 12-26 February 2020.
Survey data were first collected October 2001.

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