

Embargoed until 0900 MSK (0600 UTC) 31 December 2019

IHS MARKIT RUSSIA SERVICES PMI®

INCLUDING IHS MARKIT RUSSIA COMPOSITE PMI®

Business activity expansion eases to four-month low in December

KEY FINDINGS

Output growth softens despite faster rise in client demand

Cost pressures pick up

Business confidence slumps to lowest since August 2017

December PMI® survey data indicated a solid rise in business activity across the Russian service sector. The pace of growth eased to a four-month low, however, despite a stronger rise in new business. Domestic and foreign client demand improved, with firms signalling a renewed expansion in new export orders. Despite this, business confidence dipped to the lowest since August 2017 amid reports of greater competition. Hesitancy towards future output was also seen in a slower rate of job creation.

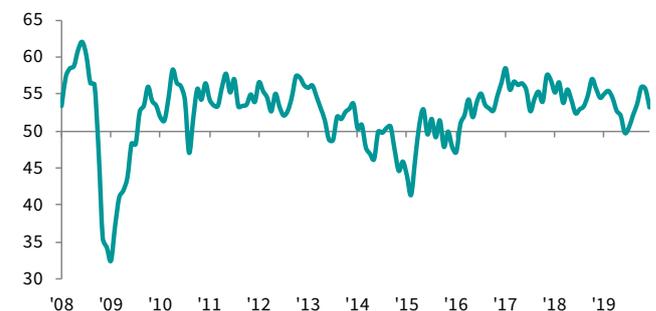
At the same time, selling prices rose at a slower pace in December, as firms struggled to pass on a faster increase in cost burdens amid competition for clients.

The IHS Markit Russia Services Business Activity Index – a single-figure measure designed to track changes in total Russian services activity – posted 53.1 at the end of 2019, down from 55.6 in November. The latest figure signalled a solid, albeit slower rise in business activity. Firms stated that the upturn was linked to greater client demand, although some mentioned that greater competition had led some customers to delay orders. Nonetheless, strong expansions in October and November helped support the best quarterly performance since the opening three months of 2019.

The rate of new business growth picked up in December, with the expansion the second-fastest since March. The strong upturn was broadly in line with the series average and commonly linked to the acquisition of new clients. Meanwhile, service providers recorded a renewed rise in new business from abroad. Although the increase was only

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

fractional, companies attributed growth to an uptick in foreign client demand.

On the price front, cost burdens faced by service providers increased at the sharpest rate for four months. Input price inflation was largely linked to higher supplier and wage costs. That said, the rate of increase was still below the long-run series average.

Despite a faster rise in costs and reports of stronger underlying demand, companies reported challenges in raising their selling prices due to more intense competition for customers. Subsequently, the rate of charge inflation softened to a moderate pace that was the second-lowest since September 2018.

Meanwhile, business activity expectations among service sector firms remained historically muted in December. Although companies still expect output to rise over the coming 12 months, the degree of confidence fell to the lowest for over two years.

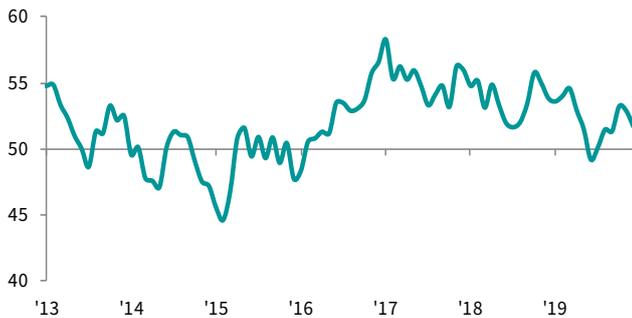
Finally, employment increased for the fourth month running in December, albeit at the slowest pace since September. Job creation was attributed to greater business requirements. Service providers continued to register a reduction in pressure on capacity as backlogs of work fell at a solid and accelerated pace.

IHS MARKIT RUSSIA COMPOSITE PMI®

Overall output growth eases to three-month low

Composite Output Index

sa, >50 = growth since previous month



Source: IHS Markit

Private sector firms across Russia continued to signal an expansion in business activity, albeit at a softer pace.

The Russia Composite Output Index* registered 51.8 in December, down from 52.9 in November. The rate of growth was only modest following a further contraction in manufacturing output and a slower pace of growth in service sector activity. The overall expansion was the softest since September.

In contrast, new business growth picked up at the end of 2019. The overall upturn quickened from November amid a faster increase in service sector client demand and a slower fall in manufacturing new order volumes. New export business continued to contract, albeit at the softest pace since July.

Private sector firms registered a further rise in employment in December, driven by greater workforce numbers at service sector firms. The fractional increase helped to reduce pressure on capacity, as reflected in a drop in outstanding business.

Although cost pressures intensified in December, firms were only able to partially pass increased input prices on to clients through higher selling prices, with the rate of charge inflation easing to only a marginal rate.

Finally, business confidence remained historically subdued and dipped to the lowest since August 2017.

*Composite PMI indices are weighted averages of comparable manufacturing and services PMI indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The Russia Composite Output Index is a weighted average of the Russia Manufacturing Output Index and the Russia Services Business Activity Index.

COMMENT

Commenting on the PMI data, Siân Jones, Economist at IHS Markit said:

"Business activity growth lost momentum at the end of 2019. Greater competition reportedly weighed on the upturn, with firms reining in their hiring activity in turn.

"More intense competition also resulted in service providers struggling to pass on higher costs to clients, with selling prices rising at one of the slowest paces for over a year.

"At the composite level, a further deterioration in manufacturing performance and less robust demand conditions across the private sector resulted in a slower overall expansion. As a result, business confidence dipped to the lowest since August 2017. GDP growth for the final three months of the year is expected to ease, with our current forecast pointing to a year-on-year rise of 1.5%, down from 1.7% recorded in the third quarter."

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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 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.

December 2019 data were collected 5-19 December 2019.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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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. To learn more go to [ihsmarkit.com/products/pmi.html](https://www.ihsmarkit.com/products/pmi.html).

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