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IHS Markit Russia Services PMI®

Including IHS Markit Russia Composite PMI®

Slower contraction in business activity as service sector starts to reopen

Key findings

Rates of decline in output and new orders ease

Employment falls further

Renewed optimism among service providers

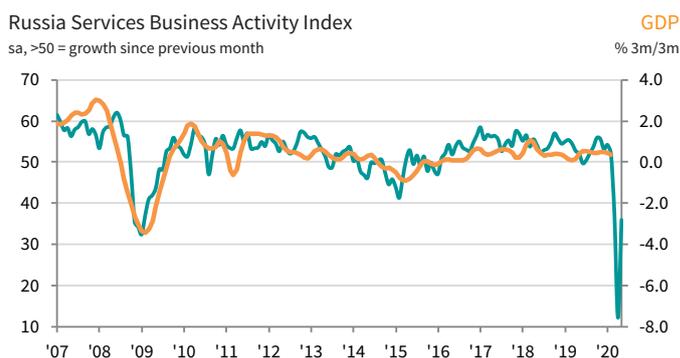
June data were collected 12-26 June 2020.

June PMI® data indicated a further, albeit substantially slower, decline in business activity across the Russian service sector. The fall in output was only modest overall as firms cleared backlogs of work, and amid some reports of demand picking up. That said, the rate of contraction in new business remained sharp overall as firms reported historically muted client demand. Meanwhile, weak new order inflows resulted in further redundancies, with employment falling at a strong pace. Nonetheless, the gradual reopening of the economy and signs of renewed client interest drove business confidence to a four-month high.

Input prices rose at a slightly faster pace in June as suppliers hiked costs. Efforts to attract customers led to a continued fall in output charges, however, albeit only fractional overall.

The seasonally adjusted IHS Markit Russia Services Business Activity Index registered 47.8 at the end of the second quarter, up notably from 35.9 in May. The downturn in business activity was only modest overall, and eased to the slowest in the current four-month sequence of contraction. Lower output was commonly linked to historically weak client demand following the coronavirus disease 2019 (COVID-19) outbreak. That said, the softer decrease was partly attributed to the reopening of service providers and interest from new and existing customers.

The pace of decline in new business also eased in June, although still remained sharp overall. The rate of contraction was the slowest in four months. Where a fall was noted, firms continued to state that not all customers or companies had



Sources: IHS Markit, FSSS.

reopened, and that demand was historically muted amid the ongoing pandemic. Foreign client demand also remained subdued, as export markets slowly signalled renewed interest. The decrease in export sales was solid overall, despite easing further from April's record.

In line with weak demand conditions, employment continued to decrease in June. Muted new order inflows and excess capacity led to further redundancies and the non-replacement of voluntary leavers. The contraction in workforce numbers was strong overall. The rate of decline was the third-fastest since January 2016, behind those in April and May's.

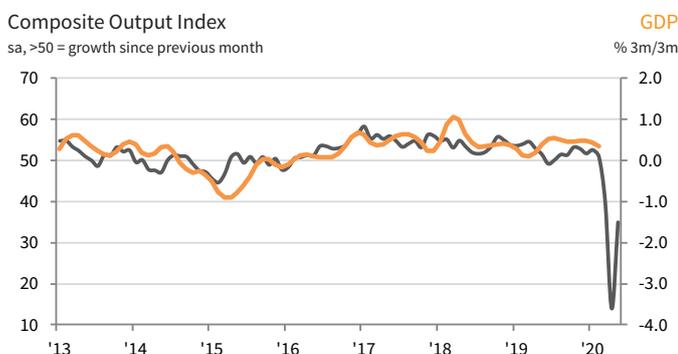
At the same time, backlogs of work fell steeply amid signs of spare capacity. Despite easing further from April's record, the rate of reduction was still faster than the long-run series average.

Meanwhile, the wider reopening of the economy sparked renewed confidence among service providers, following three successive months of pessimism. Although reaching a four-month high, the degree of confidence was well below the series trend as the pandemic continued to weigh on expectations.

Finally, output charges fell in June as firms sought to remain competitive and boost sales. Though only fractional, the decrease contrasted with a faster rise in input prices as suppliers began to hike costs as demand for inputs picked up.

IHS Markit Russia Composite PMI®

Private sector downturn eases amid looser COVID-19 restrictions



Sources: IHS Markit, FSSS.

Private sector output fell only marginally in June amid an increase in manufacturing production.

The IHS Markit Composite PMI Output Index* posted 48.9 at the end of the second quarter, up from 35.0 in May, to signal the slowest decline in activity since February. The pace of the decrease in overall output eased amid a slower downturn in service sector business activity and a modest rise in manufacturing production.

Despite a fractional and renewed rise in manufacturing new orders, private sector client demand continued to drop as service providers recorded a sharp decrease in new business. Export demand, however, remained weak across both the manufacturing and service sectors.

Meanwhile, further evidence of spare capacity in the private sector was signalled by a strong reduction in backlogs of work. Excess capacity was highlighted as key contributing factor behind a sustained fall in employment.

A faster rise in input prices led firms to raise their output charges in June, following a slight decline in May.

Manufacturers and service providers alike recorded renewed optimism in June, amid hopes of an upturn in client demand following the wider reopening of the economy.

*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

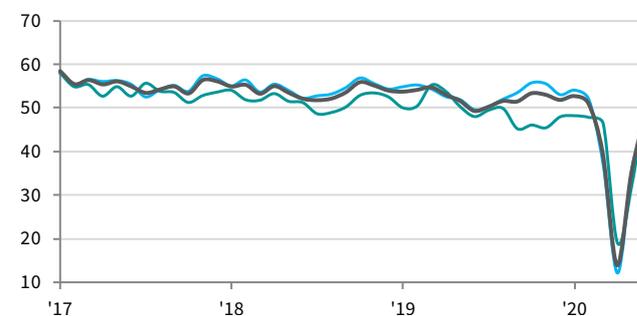
Commenting on the latest survey results, Siân Jones, Economist at IHS Markit, said:

"Russian service providers signalled a notably slower decline in business activity in June as parts of the sector began to reopen, with the rate of contraction easing further from April's nadir. That said, demand was historically subdued and the downturn in new orders remained sharp.

"As a result, firms cut workforce numbers steeply amid ongoing signs of excess capacity. Although historically muted, optimism returned in June as the loosening of COVID-19 restrictions and hopes of renewed client demand drove confidence.

"More broadly, combined manufacturing and services output neared stabilisation largely thanks to an expansion in goods production. New business also returned to growth, albeit only fractionally. That said, the damage done in the second quarter looks set to weigh on economic growth as our latest forecast for 2020 indicates an expected 8.6% decline in GDP."

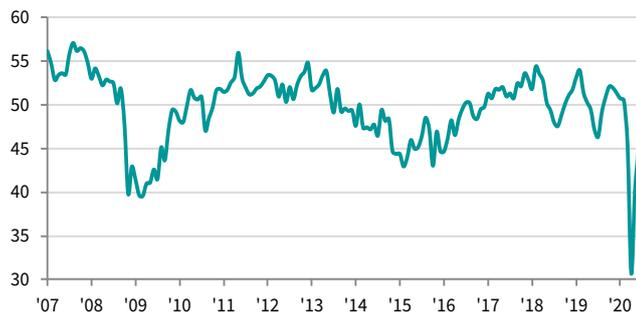
Output Index
Composite / Manufacturing / Services
sa, >50 = growth since previous month



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.

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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

June data were collected 12-26 June 2020.

Survey data were first collected October 2001.

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