

Embargoed until 0900 MSK (0600 UTC) 5 August 2020

IHS Markit Russia Services PMI®

Including IHS Markit Russia Composite PMI®

Fastest rise in business activity since July 2008 following easing of COVID-19 lockdown

Key findings

Renewed growth in output and new business

Softer fall in employment

Business confidence picks up to nine-month high

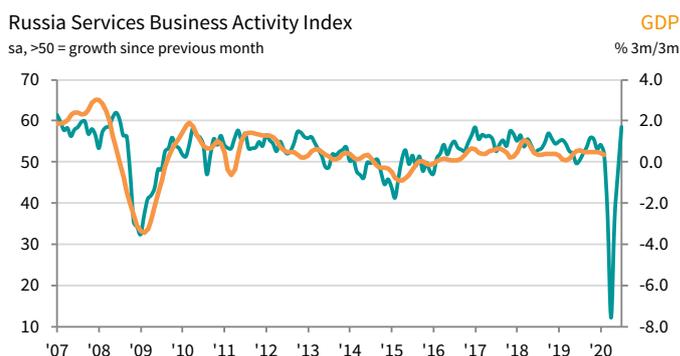
July data were collected 13-29 July 2020.

July PMI® data indicated a marked turnaround in Russian service sector output from the declines seen in the previous four months. The pace of increase in business activity was substantial and the sharpest for 12 years. Supporting the recovery was a renewed, and robust, rise in new business. Although export orders remained in contraction, domestic demand strengthened. The rate of job shedding eased in July as backlogs of work fell at only a modest pace. Business confidence meanwhile improved, reaching a nine-month high.

At the same time, the rate of input cost inflation softened slightly, with output charges broadly stable following three successive monthly declines.

The seasonally adjusted IHS Markit Russia Services Business Activity Index registered 58.5 at the start of the third quarter, up notably from 47.8 in June. The latest figure was the highest since July 2008 and signalled a marked expansion in business activity across the Russian service sector. The upturn was largely linked to the resumption of operations at service providers and their clients as coronavirus disease 2019 (COVID-19) lockdown measures were relaxed further, with many noting renewed customer demand. July data indicated an end to a four-month sequence of decline, and a further move away from April's nadir.

New business received by Russian service sector firms increased for the first time since February in July. Panellists often stated that growth in new order inflows was due to the easing of lockdown measures and the resumption of client business. The rate of expansion was the strongest for 12 years



Sources: IHS Markit, FSSS.

and substantial overall. Nonetheless, foreign client demand struggled to regain momentum, as new export orders fell at a sharper rate. Although not as quick as the contractions seen in March, April and May, the pace of decline was steep overall.

Reflecting the upturn in new business, firms reduced their workforce numbers at a slower pace in July. The modest fall was the softest in the current five-month sequence of decline. That said, still relatively weak demand conditions pushed firms to cut costs and make redundancies. Excess capacity also remained evident in July, as backlogs of work fell further. That said, the rate of depletion was only modest overall and the slowest in eight months.

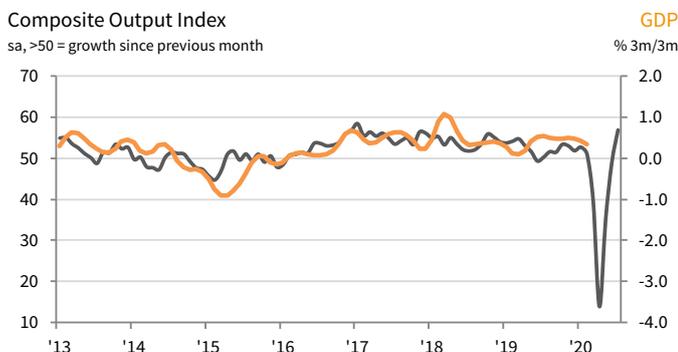
Output expectations among Russian service providers improved in July, with confidence growing further from March's record low. The degree of optimism reached a nine-month high, as firms stated that positive sentiment stemmed from efforts to attract new clients and hopes of an increase in global demand.

At the same time, services firms continued to record an increase in cost burdens, albeit at a slightly slower pace in July. The solid rise was linked to unfavourable exchange rates and higher operational costs due to the COVID-19 pandemic.

Output charges, however, broadly stabilised following three consecutive monthly falls. Some firms were able to raise their selling prices due to the uptick in demand, whereas others continued to offer discounts to boost sales.

IHS Markit Russia Composite PMI®

Output expansion strongest since January 2017



Sources: IHS Markit, FSSS.

Upturns in business activity across the manufacturing and service sectors drove growth to the fastest since early-2017.

The IHS Markit Composite PMI Output Index* posted 56.8 in July, up from 48.9 in June, to signal the first rise in business activity since February. The latest figure signalled a further recovery in the respective seasonally adjusted index from April's nadir, driven by a marked improvement in the service sector performance.

Output growth was supported by a renewed rise in service sector new business. Despite a drop in manufacturing new sales, the rate of overall expansion was the fastest since January 2019.

Meanwhile, employment continued to fall, as private sector firms reported further redundancies amid lost revenues following lockdowns. Spare capacity remained evident as backlogs of work fell again.

Private sector cost burdens rose at a slightly faster pace in July, as raw material and other input prices increased amid unfavourable exchange rate movements and supplier constraints. Selling prices rose marginally, led by an increase in factory gate charges.

At the same time, business confidence improved to a nine-month high amid hopes of a return to pre-pandemic output levels and efforts to attract new clients.

**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

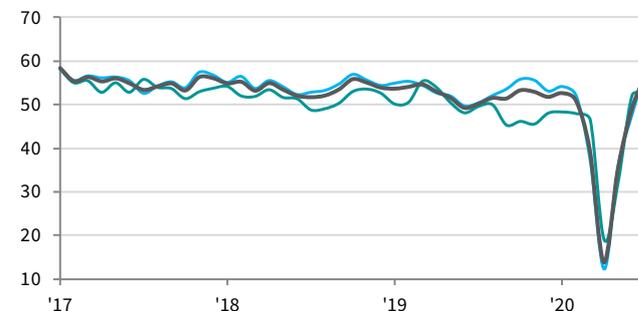
Commenting on the latest survey results, Siân Jones, Economist at IHS Markit, said:

"The Russian service sector saw a renewed and substantial uptick in business activity and client demand in July. The marked turnaround from June's modest contraction was largely linked to the resumption of business and renewed client work. As a result, output expectations hit a nine-month high amid hopes of greater global demand.

"Nonetheless, historically weak overall demand led to further job losses, as firms sought to reduce their monthly outgoings amid COVID-19 related uncertainty.

"At the composite level, manufacturers and service providers often signalled contrasting trends, as manufacturing client demand weakened at the start of the third quarter. On the price front, the rate of input cost inflation remained historically solid, but strong competition and further discounting by some private sector firms meant only muted rises in selling prices."

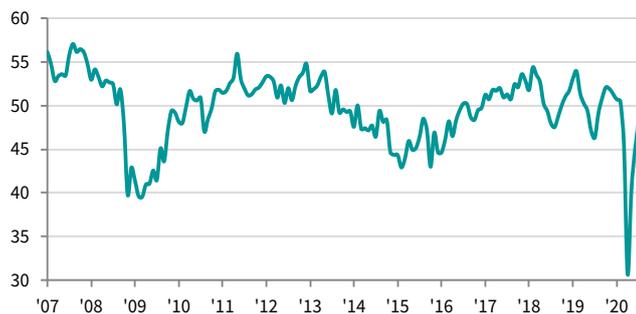
Output Index
Composite / Manufacturing / Services
sa, >50 = growth since previous month



Source: IHS Markit.

Services Employment Index

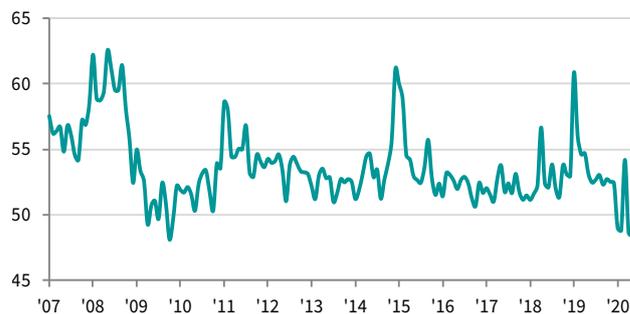
sa, >50 = growth since previous month



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

July data were collected 13-29 July 2020.

Survey data were first collected October 2001.

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