Business activity contracts for first time since January 2016

KEY FINDINGS

- Fractional fall in output and new business
- Employment decreases at quickest rate since April 2016
- Inflationary pressures soften further

June PMI® data signalled a fractional contraction in business activity across the Russian service sector. Although slight, the fall was the first since the start of 2016 and largely stemmed from a similar contraction in new business. Weaker demand conditions had the knock-on effect of reducing workforce numbers at a solid rate that was the fastest since April 2016. The notable turnaround in client demand also caused a drop in business confidence. Meanwhile, rates of input cost and output charge inflation eased further amid a slowdown in underlying client demand.

The IHS Markit Russia Services Business Activity Index – a single-figure measure designed to track changes in total Russian services activity – posted 49.7 in June, down from 52.0 in May. It marked the first time the seasonally adjusted index has posted below the crucial 50.0 neutral mark since January 2016. The latest index reading signalled a slight fall in business activity in June. Moreover, the average for the second quarter indicated the slowest expansion in service sector output since the first quarter of 2016.

Lower levels of business activity reportedly stemmed from a drop in new orders in June, the first such decline since early-2016. The decrease was only fractional overall, but signalled a notably turnaround from the moderate expansion seen in May. Meanwhile, new export orders rose for the ninth month running, albeit at only a marginal rate. External demand continued to outperform the domestic market despite the rate of growth in international sales easing to an eight-month low.

In line with weaker demand conditions, employment fell for the second successive month in June. The rate of contraction in workforce numbers was the fastest since April 2016, as firms suggested lower business requirements reduced strain on capacity.

At the same time, backlogs of work continued to fall in June amid a decrease in new business and greater efforts to clear outstanding orders. The contraction in incomplete business accelerated to a solid rate that was the fastest for three months.

Meanwhile, input prices increased at a strong rate in June. Greater cost burdens were linked to higher raw material prices, especially for fuel and food. That said, the pace of increase softened for the fifth month running from January’s spike and was the slowest since March 2018.

The rate of output price inflation also eased further in June. The increase in charges was only moderate overall and the softest since last September. Some firms stated that lacklustre demand had weighed on their ability to raise prices.

Lastly, business expectations dipped to a three-month low amid less favourable demand conditions and weaker client purchasing power. Moreover, the degree of confidence was below the long-run series average.
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. The Composite Output Index registered 49.2 in June, down from 51.5 in May. The decrease in overall business activity was the first since the start of 2016, as both manufacturing and services firms recorded a fall in output.

Manufacturers and service providers also registered slight decreases in new business in June, as lacklustre demand conditions dragged the private sector into contraction. In contrast, the decline in new export orders was driven by the manufacturing sector. Service providers signalled a slight expansion in foreign demand that was outweighed by manufacturing weakness.

The recent fall in employment accelerated and was the quickest since April 2016, with service providers indicating a solid decrease in workforce numbers. Conversely, the decline in staffing levels eased among manufacturers. A reduction in strain on capacity was also reflected in the fastest fall in backlogs for three months.

Inflationary pressures meanwhile softened further from January’s peak in June, as slower rises in raw material and purchase prices and weaker demand conditions led to the smallest increase in charges since March 2018.

Finally, expectations towards output over the coming 12 months were historically solid despite easing from May. The level of confidence dipped at both manufacturing and service sector firms.

**COMMENT**

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

“Russian service providers signalled the first contraction in business activity and new orders since the start of 2016 in June. Weaker domestic demand, and less robust growth in export business, weighed on output. Consequently, firms reined in their hiring even further, with employment falling at the quickest rate since April 2016.

"In line with their manufacturing counterparts, service sector firms signalled lower output expectations, highlighting concerns around client purchasing power and generally weaker demand conditions.

"At the composite level, private sector firms registered a decline in output and new orders, with manufacturers recording an even faster fall in output than service providers. Meanwhile, rates of input price and output cost inflation softened further from January’s spike, as slower increases in raw material costs and greater pressure to discount charges became apparent.”
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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.

June 2019 data were collected 12-26 June 2019.

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