

EMBARGOED UNTIL: 00:01 (UTC) July 13th 2020

IHS Markit Russia Business Outlook

Russian business confidence picks up in June, but remains historically subdued

Key findings:

- Business activity forecasts among the weakest since October 2016
- Hiring intentions drop to lowest since February 2016
- Optimism towards a rise in selling prices at a record-low in June

Data collected June 12-26

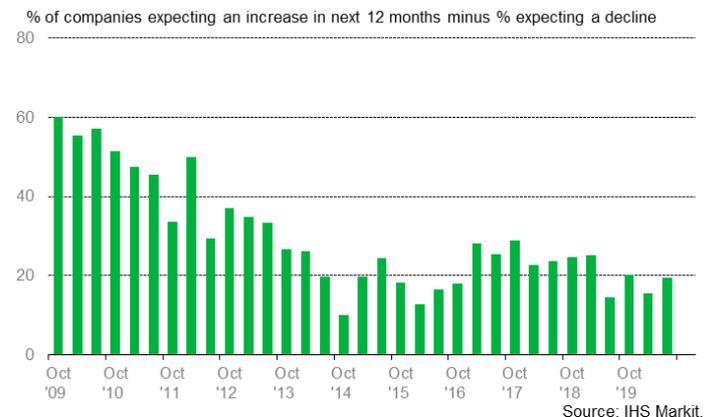
According to the latest data from the IHS Markit Business Outlook survey, optimism among private sector firms in Russia rose in June. That said, at +20%, up from +16% in February, the net balance of firms expecting an increase in business activity over the coming year was historically muted as the ongoing coronavirus disease 2019 (COVID-19) pandemic continued to stifle demand.

Where manufacturers and service providers expect a rise in output over the next year, this was linked to hopes of an uptick in demand following the further easing of COVID-19 restrictions, investment in new technology and equipment, and the acquisition of new clients.

Nonetheless, muted expectations in June reportedly stemmed from concerns surrounding delayed payments from customers due to the pandemic, which could put pressure on balance sheets, and weak demand in the domestic market due to uncertainty and lack of job security caused by the virus outbreak. A number of firms also noted that foreign competition and unfavourable exchange rates may stymie growth in the next year.

At the sector level, both manufacturing and services registered larger net balances of firms forecasting higher business activity over the coming 12 months.

Russia business activity expectations



Optimism among goods producers (+27%) was the strongest since October 2017.

Employment & Investment Plans

Russian private sector firms were their least confident of an increase in employment over the coming year since February 2016. The net balance fell to just +5% (+9% in February) as both manufacturers and service providers became less optimistic of an uptick in hiring. Weaker expectations were linked to a shortage of skilled labour, but also to more sober output forecasts.

Despite weak demand conditions expected over the next year, private sector firms were more optimistic regarding investment compared to February. The net balance of firms that foresee a rise in capital spending picked up to +13% (+8% in February) as companies stated hopes of a rise in investment in new machinery and technology. Similarly, the net balance of firms expecting higher R&D spending increased to +13%. This compared favourably with a global average of +1%, and +3% for emerging economies.

Inflation Expectations

Expectations towards inflationary pressures remained historically subdued in June, despite the net balances of firms forecasting higher staff (+21%) and non-staff costs (+17%) rising from February's lows.

Meanwhile, weak demand conditions tempered expectations towards selling prices in June, as the net balance of firms that foresee higher output charges dropped to +23%, the lowest since comparable data were first available in October 2009.

Corporate Earnings

Alongside a moderation in forecasts for selling prices, the net balance of Russian private sector firms that expect profits to rise fell to +10%, the lowest since June 2016. The drop was driven by service providers, with the net balance of manufacturers expressing confidence in higher profits increasing.

Comment:

Commenting on the Russia Business Outlook survey data, **Siân Jones**, Economist at IHS Markit, said:

“Russian private sector firms expressed greater optimism towards the outlook for business activity in the coming year in June, albeit with sentiment remaining historically subdued. Hopes of no further peaks in the pandemic and plans to invest in new technology spurred confidence. The net balance expecting greater output also outperformed the global average.”

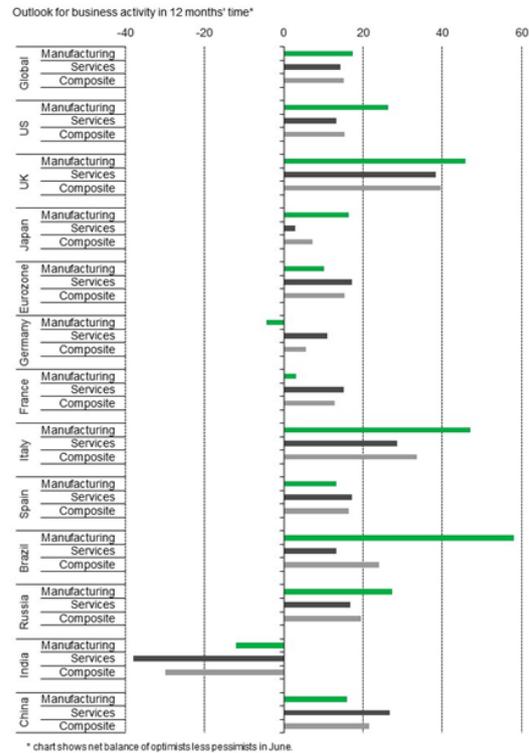
“In line with plans for investment, the net balance of firms that foresee higher capex and R&D spending were both boosted in June. Companies reported plans to modernise their operations to remain competitive amid a challenging demand environment.”

“Business conditions are not forecast to be rosy, however, as optimism regarding profits, selling prices and employment all tumbled. In fact, confidence in future hiring dropped among both manufacturers and service providers amid reports of a shortage of skilled workers and weak demand conditions.”

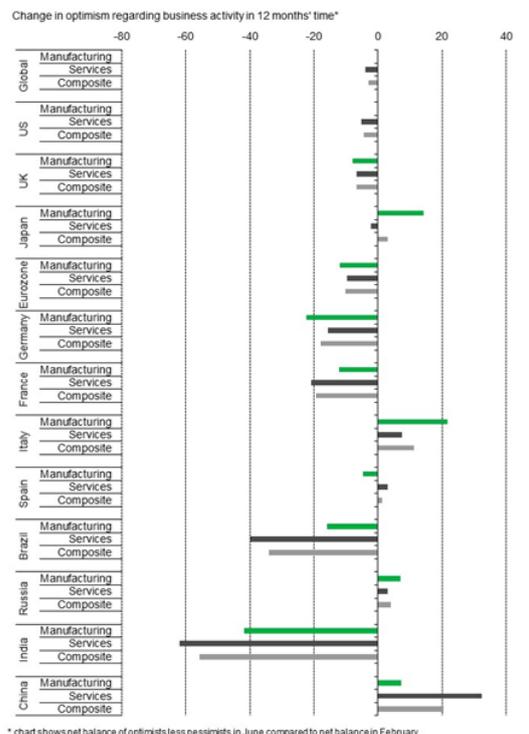
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Full data available on request from economics@ihsmarkit.com

Business optimism in June



How business activity expectations have changed since February



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Notes to Editors:

The Global Business Outlook Survey for worldwide manufacturing and services is produced by IHS Markit and is based on a survey of around 12,000 manufacturers and service providers that are asked to give their thoughts on future business conditions. The reports are produced on a tri-annual basis, with data collected in February, June and October. The latest survey was conducted between June 10 and 29.

Interest in the use of economic surveys for predicting turning points in economic cycles is ever increasing and the Business Outlook survey uses an identical methodology across all nations covered. It gives a unique perspective on future business conditions from Global manufacturers and service providers.

The methodology of the Business Outlook survey is identical in all countries that IHS Markit operates. This methodology seeks to ensure harmonization of data and is designed to allow direct comparisons of business expectations across different countries. This provides a significant advantage for economic surveillance around the globe and for monitoring the evolution of the manufacturing and services economies by governments and the wider business community.

Data collection is undertaken via the completion of questionnaires three times a year at four-month intervals. A combination of phone, website and email are used, with respondents allowed to select which mechanism they prefer to use.

The Business Outlook survey uses net balances to indicate the degree of future optimism or pessimism for each of the survey variables. These net balances vary between -100 and 100, with a value of 0 signalling a neutral outlook for the coming 12 months. Values above 0 indicate optimism amongst companies regarding the outlook for the coming 12 months while values below 0 indicate pessimism. The net balance figure is calculated by deducting the percentage number of survey respondents expecting a deterioration/decrease in a variable over the next twelve months from the percentage number of survey respondents expecting an improvement/increase.

Questionnaires are sent to a representative panel of around 12,000 manufacturing and services companies spread across the global economy in the countries mentioned above. Companies are carefully selected to ensure that the survey panel accurately reflects the true structure of each economy in terms of sectoral contribution to GDP, regional distribution and company size. This panel forms the basis for the survey. The current report is based on responses from around 7,000 firms.

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