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IHS Markit Russia Business Outlook

Russian business optimism picks up in February

Key findings:

- Business confidence rebounds from last October's record low
- Employment expectations strongest for 12 months
- Forecast for staff costs increases to joint-highest since October 2019

Data collected February 11-24

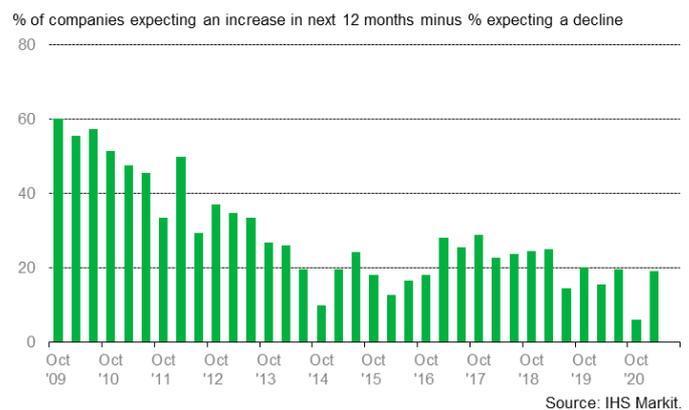
According to the latest IHS Markit Business Outlook survey, optimism among Russian private sector firms strengthened in February. The net balance of companies expecting a rise in business activity (+19%) improved from a record low in October (+6%) and was among the highest over the past two years. That said, among the countries for which comparable data are available, Russian firms were the least confident of a rise in output over the coming year (global average: +32%).

Optimism reportedly stemmed from the prospect of new client acquisitions, access to new markets and hopes of an uptick in customer demand. Firms also noted expectations of a successful vaccine roll-out and a resulting pick-up in consumer spending.

Russian private sector firms indicated that threats to growth remained, with the headline net balance still below the series average (+29%). Inflationary pressures from hikes in raw material prices and wages were commonly noted as having the potential to hamper future output. The ongoing pandemic and associated restrictions were also highlighted as risks, with firms uncertain as to the longevity of the virus outbreak.

At the sector level, manufacturers and service providers registered higher net balances of companies expecting greater activity over the coming year. Although goods producers were the more upbeat (+22%), service sector

Russia business activity expectations



firms recorded the greatest optimism (+18%) since October 2019.

Employment & Investment Plans

Russian private sector firms remained positive, on balance, regarding expectations of an increase in employment over the next year. The net balance rose to +8% and was the highest since February 2020, despite being the joint-lowest of the 12 countries for which comparable data are available (alongside China and Italy).

Companies were also more upbeat regarding investment opportunities, as new product developments were commonly identified as an opportunity to drive output growth. Although below their respective series averages, the net balances of firms anticipating greater capex and R&D spending increased in February to +9% and +11%, respectively.

Inflation Expectations

February data signalled expectations of increases in both staff and non-staff costs among Russian private sector firms. The net balance of companies that foresee

higher staffing costs rose from +17% last October to +21%. In contrast, the net balance of firms forecasting higher non-staff costs dipped to the lowest for a year (+15%), despite some raising concerns regarding greater raw materials prices.

Private sector firms moderated their expectations regarding future increases in selling prices. The lower net balance (+28% in February, down from +32% in October 2020) was led by reduced optimism among manufacturers regarding their ability to raise output charges over the next year.

Corporate Earnings

The net balance of companies expecting an increase in profit over the coming 12 months returned to positive territory in February, rising from -1% last October to +10%. Despite firms anticipating a rise in costs, increased optimism towards business activity supported sentiment regarding profitability.

Comment:

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

“Russian private sector firms regained some optimism towards future business activity during February, with the net balance of companies anticipating higher output in a year’s time rebounding from last October’s record low. Hopes of a successful vaccine roll-out, a resulting uptick in demand and the acquisition of new clients reportedly supported confidence.

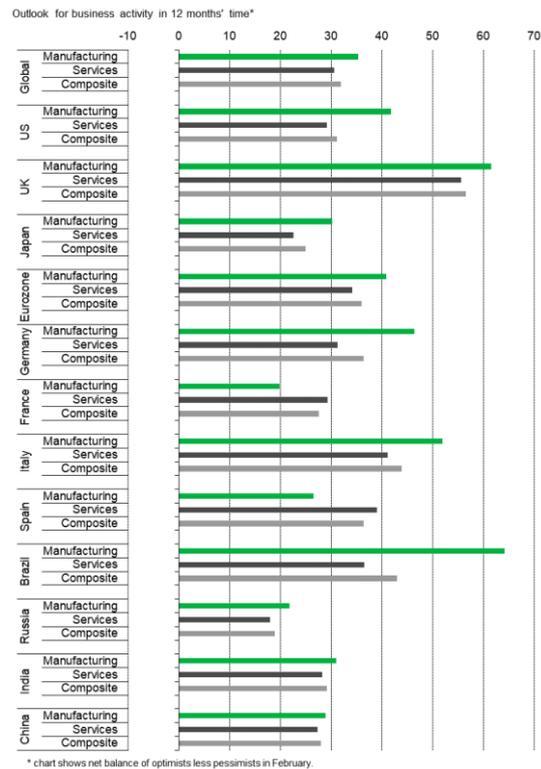
“That said, output expectations were still historically weak and concerns remained. Chief among these were hikes in supplier prices and the ongoing challenges stemming from the pandemic.

“On a more positive note, hiring intentions were at their highest for a year amid hopes of greater new sales as 2021 progresses. Opportunities for new product development also aided stronger expectations regarding capex and R&D spending for the year ahead.”

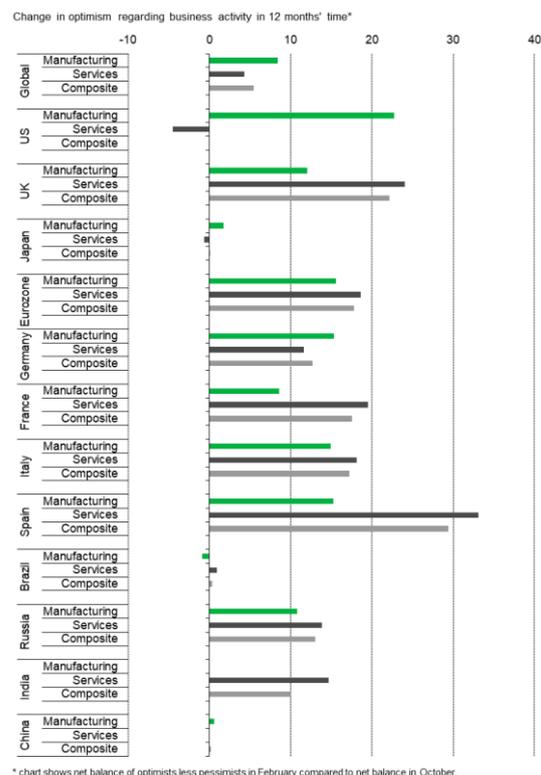
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Full data available on request from economics@ihsmarkit.com

Business optimism in February



How business activity expectations have changed since October



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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 February 2 and 25.

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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