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IHS MARKIT RUSSIA SERVICES PMI®

INCLUDING IHS MARKIT RUSSIA COMPOSITE PMI®

Sharp rise in service sector new orders in December

KEY FINDINGS

Rate of new business growth one of the strongest in 2018

Fastest quarterly output expansion in a year

New export orders rise the most in series history

December data signalled a solid rise in business activity across the Russian service sector, supported by a sharp expansion in new business. Foreign client demand picked up, with the rate of new export growth accelerating to a series peak. Despite a further fall in outstanding business, firms raised their workforce numbers at a faster pace as expectations towards future output improved to the second-highest since February.

Meanwhile, input price inflation remained marked overall, although the rate of output charge inflation dipped to a three-month low.

The IHS Markit Russia Services Business Activity Index – a single-figure measure designed to track changes in total Russian services activity – posted 54.4 in December, down from 55.6 in November but nonetheless indicating a solid expansion in business activity across the Russian service sector. The increase in output was attributed to greater new order inflows from both domestic and foreign clients. The final quarterly average for 2018 was the strongest in a year, despite the latest data signalling the slowest rise in business activity in four months.

New business continued to increase at a sharp rate in December, with the pace of growth easing only slightly from that seen in November. The expansion was faster than the series trend and was reportedly linked to new client wins. The rise in new export orders was strong overall, amid greater new order volumes from both new and existing clients. The upturn in new business from abroad was in fact the quickest

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

since data collection began in September 2014.

In line with a sustained rise in new business, Russian service providers noted a stronger increase in workforce numbers in December. The rate of job creation picked up to an eight-month high amid greater business requirements.

Backlogs of work contracted for the thirteenth successive month in December. The fall in outstanding business was solid overall and faster than the series trend despite softening from November.

Input price inflation eased for the second month running in December. Nevertheless, Russian service providers continued to register a marked rise in cost burdens overall. Where operating expenses rose, panellists attributed this to higher wage and energy costs.

Consequently, firms sought to partly pass greater cost burdens on to clients through higher output charges. The rise in selling prices was solid overall, but the rate of inflation dipped further below the series average.

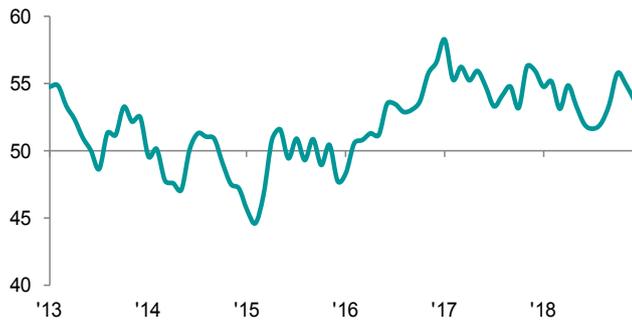
Finally, business confidence across the Russian service sector improved in December. Expectations of further rises in new business and a sustained increase in output reportedly drove higher positive sentiment. The degree of optimism was the second-strongest since February and robust in the context of the series history.

IHS MARKIT RUSSIA COMPOSITE PMI®

Solid expansion in Russian private sector output in December

Composite Output Index

sa, >50 = growth since previous month



Source: IHS Markit

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 posted 53.9 in December, down from 55.0 in November. Despite growth easing to a three-month low, the quarterly performance was still the best in a year. Expansion in output across both the manufacturing and service sectors remained solid overall.

New business received by private sector firms increased strongly in December. Growth in both the manufacturing and service sectors eased slightly but remained robust.

Encouragingly, employment continued to rise across both the manufacturing and service sectors. Although the rate of job creation softened among goods producers, the increase in workforce numbers accelerated in the service sector.

On the price front, input cost inflation eased in December. The pace of increase dipped to a nine-month low in the manufacturing sector, but remained marked. Output charge inflation also slowed, most notably among manufacturers who were encouraged to adopt competitive pricing due to an increase in firms in the market.

Manufacturers and service providers alike registered a stronger degree of business confidence in December. The overall level of positive sentiment was one of the highest since the series began in 2012.

COMMENT

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

"Russian service providers registered a further solid rise in business activity in December. The final quarterly growth performance was the strongest for a year, with employment and business confidence picking up to indicate optimism across the service sector going into 2019.

"Although IHS Markit's current forecasts show GDP growth moderating slightly in 2019, the latest new business expansion remained sharp. Survey respondents also noted the fastest rise in new export orders since data collection began in September 2014, signalling robust international client demand.

"Inflationary pressures cooled, with rates of both input price and output charge inflation softening in December amid greater competition.

"At the composite level, both manufacturers and service providers registered a solid increase in output in December. Employment continued to rise as the level of positive sentiment towards the year ahead rose to one of the strongest since 2012."

CONTACT

IHS Markit

Siân Jones
Economist
T: +44-1491-461-017
sian.jones@ihsmarkit.com

Joanna Vickers
Corporate Communications
T: +44-207-260-2234
joanna.vickers@ihsmarkit.com

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.

December 2018 data were collected 5-19 December 2018.

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

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Purchasing Managers' Index™ (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to ihsmarkit.com/products/pmi.html.

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