Service sector output falls further amid COVID-19 lockdowns

Key findings

Business activity and new orders contract markedly

Pessimism towards outlook for output spurs further job cuts

Selling prices decline at fastest rate since October 2009

Data were collected 12-27 May 2020.

May PMI® data signalled a softer, albeit considerable contraction in business activity across the Russian service sector. The decline in output largely stemmed from weak demand conditions and difficulties for customer-facing business to reopen due to emergency public health measures. Total sales were impacted by muted domestic and foreign client demand, as global lockdowns restricted travel. Subsequently, firms cut their workforce numbers substantially, as lower new business inflows led to spare capacity and pessimistic expectations for the coming year.

Meanwhile, output charges fell at the sharpest pace since October 2009 amid efforts by firms to attract new clients.

The seasonally adjusted IHS Markit Russia Services Business Activity Index registered 35.9 in May, up from April’s nadir of 12.2. Although the latest figure signalled a slower contraction in business activity, the downturn was still severe and the second-fastest since early-2009.

The overall decrease in output in part stemmed from weak client demand, as emergency public health measures weighed on customer spending and led to difficulties for consumer-facing firms in reopening. Another substantial drop in new export orders also dragged down overall new business. Ongoing global lockdowns and travel restrictions dampened export demand, with the rate of contraction the second-steepest since data collection for the series began in September 2014.

Reflecting lower new order inflows, firms reduced their staffing levels at a marked pace in May. The decrease in employment was commonly attributed to excess capacity amid lower business requirements. With the exception of April’s recent low, the rate of contraction was the sharpest since March 2009.

At the same time, backlogs of work fell substantially in May as new business inflows continued to fall. Negative sentiment across the Russian service sector eased midway through the second quarter. Companies continue to foresee a decrease in business activity over the coming year, amid concerns towards weak client demand and fears over the timescale of any recovery.

In an effort to boost sales and attract new clients, firms reduced their output charges for the second successive month in May. The decrease quickened slightly and was the sharpest since late-2009. Some companies highlighted that greater competition had driven the increase in discounting.

A slower rise in cost burdens also aided firms in cutting their selling prices. Despite rouble weakness pushing imported costs up, service providers signalled the softest increase in input prices since last November. The rate of cost inflation was well below the long-run series average.
Manufacturers and service providers registered further severe drops in business activity in May. The IHS Markit Composite PMI Output Index* posted 35.0 midway through the second quarter. Although up from April’s record low of 13.9, the latest figure signalled a marked contraction in private sector output amid ongoing emergency public health measures related to the pandemic.

Driving the fall in overall business activity, client demand tumbled further as both domestic and foreign customers held back from placing orders. Despite easing from April’s nadir, the rate of decline was the second-fastest since January 2009.

Business expectations remained pessimistic in May, as firms foresee a decrease in output over the coming year due to concerns of a prolonged recovery following the pandemic. Lower confidence and weak client demand contributed to a further round of job cuts.

On the price front, cost burdens rose at softer rates at both manufacturing and services firms despite rouble weakness pushing imported prices up. Private sector output charges, however, decreased in May amid efforts by firms to remain competitive.

*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.
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 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.

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