

Purchasing Managers' Index™
MARKET SENSITIVE INFORMATION
EMBARGOED UNTIL: 09:00 (Moscow) / 06:00 (UTC), July 4th 2018

IHS Markit Russia Services PMI® – (with Composite PMI® data)

Service sector business activity growth weakest since May 2016

Key points:

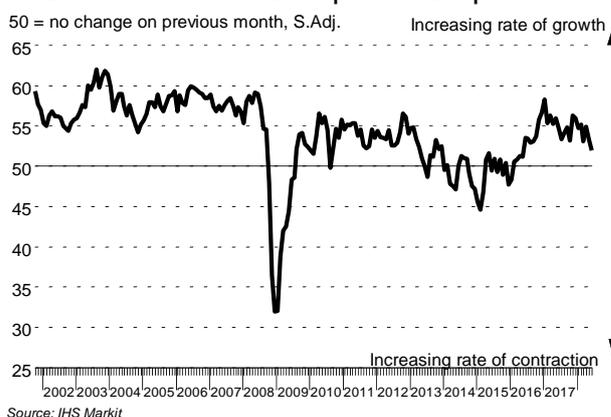
- Output growth eases to moderate rate
- New orders increase at slowest pace for 25 months
- Input price inflation accelerates to fastest since March 2015

Data collected June 13-27

Latest survey data signalled a modest and slower expansion in business activity across the Russian service sector. Moreover, June also saw the weakest rise in new orders since mid-2016. Reduced pressure on capacities was reflected in contractions in both backlogs and employment, with staffing levels falling for the first time in 18 months. On the price front, input cost inflation accelerated in June to the fastest since March 2015. Despite greater strain on profit margins, charges increased only modestly and at the weakest pace for four months. Nevertheless, companies remained strongly optimistic towards the year-ahead outlook for output.

The **IHS Markit Russia Services Business Activity Index** – a single-figure measure designed to track changes in total Russian services activity – posted 52.3 in June, down from 54.1 in May. The latest expansion in business activity was the twenty-ninth in as many months, but the weakest since May 2016 and only modest overall. Anecdotal evidence suggested that the upturn was due to greater client demand.

IHS Markit Russia Composite Output Index



The **IHS Markit Russia Composite Output Index** (covering both manufacturing and services) posted 52.0 in June, down from 53.4 in May. The latest reading signalled an overall rate of growth that was only modest and the weakest since May 2016.

Following the trend seen for output, service sector new orders increased at a slower rate in June. Moreover, the pace of expansion was the weakest in just over two years. Where a rise in new business was reported, panellists linked this to the acquisition of new clients; however, some firms noted that market conditions were uncertain. Manufacturers, however, reported the first decline in new orders since July 2016.

In line with a slower upturn in new business, backlogs at services firms contracted for the seventh successive month. The rate of decline accelerated and was the fastest in the aforementioned sequence. Employment levels also

decreased, the first such fall since December 2016. That said, the downturn was only marginal overall. Similarly, goods producers indicated a further contraction in outstanding business, the fastest seen since January 2016. Factory staffing numbers also decreased for the second month running.

Average cost burdens faced by service providers increased again in June, with the rate of inflation accelerating and remaining elevated. Moreover, the pace of increase was the quickest since March 2015. Anecdotal evidence commonly linked the rise in prices to supplier shortages and higher raw material costs, especially fuel. Meanwhile, manufacturers signalled a marked rise in input costs, despite the rate of inflation easing from May's 32-month high.

In line with a slowdown in new order growth, average charges only increased modestly in June. Panellists stated that difficult demand conditions restricted the pass-through of costs to clients. The rate of inflation eased to a four-month low. Manufacturing firms, on the other hand, noted a strong rise in factory gate charges. The rate of inflation was the second-fastest since September 2015.

Finally, the degree of optimism across the Russian service sector increased in June. Confidence was widely attributed to hopes of further growth in output and new business, and the recent acquisition of new clients. Positive sentiment was below the long-run series average, however. In contrast to their service sector counterparts, manufacturers signalled the weakest degree of confidence for six months. That said, optimism remained robust overall.

Comment:

Commenting on the Russia Services PMI survey data, **Sian Jones, Economist at IHS Markit**, which compiles the survey, said:

“Despite the World Cup kicking off, business activity in Russia’s service sector expanded at only a modest rate in June. A softer rise in output was accompanied by the weakest increase in new business since mid-2016. Less robust client demand was reflected in a contraction in employment, the first such decline in staffing levels since December 2016.

“Profit margins were placed under greater strain as input costs rose at the fastest rate since March 2015. Firms also reported difficulty in passing on costs to clients due to signs of fragile demand.

“June survey data indicated the softest overall private sector expansion since May 2016, according to the IHS Markit Russia Composite Output Index. A loss of growth momentum across both the goods-producing and service sectors influenced the moderate upturn.”

-Ends-

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Note to Editors:

The IHS Markit Russia Service PMI is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 300 private service sector companies. The panel has been carefully selected to accurately replicate the true structure of the services economy. The IHS Markit Russia Composite PMI is a weighted average of the Manufacturing Output Index and the Services Business Activity Index, and is based on original survey data collected from a representative panel of over 600 companies based in the Russian manufacturing and service sectors.

Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

The Purchasing Managers' Index (PMI) survey methodology has developed an outstanding reputation for providing the most up-to-date possible indication of what is really happening in the private sector economy by tracking variables such as sales, employment, inventories and prices. The indices are widely used by businesses, governments and economic analysts in financial institutions to help better understand business conditions and guide corporate and investment strategy. In particular, central banks in many countries use the data to help make interest rate decisions. PMI surveys are the first indicators of economic conditions published each month and are therefore available well ahead of comparable data produced by government bodies.

IHS Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from IHS Markit. Please contact economics@ihsmarkit.com.

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