Russian service sector firms registered the sharpest fall in business activity in the series history in April, as the impact of emergency restrictions following the outbreak of coronavirus disease 2019 (COVID-19) was felt across the Russian service sector. The decrease was driven by both temporary business closures and a substantial drop in client demand, with customers holding back on spending and postponing order placements. Subsequently, firms cut their workforce numbers markedly amid burgeoning spare capacity. Service providers also remained pessimistic towards output over the coming year, despite confidence improving slightly from that seen in March.

Meanwhile, amid efforts to retain clients, firms indicated a renewed fall in output charges despite a solid rise in cost burdens.

The seasonally adjusted IHS Markit Russia Services Business Activity Index registered 12.2 in April, down substantially from 37.1 in March, and signalled the steepest contraction in business activity since data collection for the series began in October 2001. The decline in output was widely linked to a slump in client demand following the implementation of emergency public health measures. Some firms also noted that lockdowns and quarantine procedures had reduced their ability to operate.

New business received by service providers fell steeply in April, as lockdown procedures led customers to cancel or postpone orders. The downturn in new orders was the most marked in the series history, with foreign client demand also contracting sharply. New export orders declined at the fastest pace in the series history (since September 2014), amid the escalation of the COVID-19 outbreak across Europe. Meanwhile, firms’ expectations towards business activity over the coming year remained pessimistic in April. Although the degree of confidence increased slightly from that seen in March, it was nonetheless the second-lowest in the series history. Firms noted that the slump in customer demand and worries surrounding the speed of any recovery drove negativity.

At the same time, lower new business inflows led to greater spare capacity at Russian service sector firms at the start of the second quarter. As a result, firms reduced employment at a record pace. Excess capacity largely stemmed from the drop in client demand, with the level of outstanding business declining at the sharpest pace in the eighteen-and-a-half year survey history.

On the price front, cost burdens faced by Russian service providers rose at a solid rate that was the second-fastest since last July. The increase reportedly stemmed from costs associated with the transition to working from home and negotiating logistical challenges during the outbreak of COVID-19. That said, in an effort to retain clients and try to attract new customers, firms recorded a renewed decrease in output charges. The fall was the fastest since October 2009.
Unprecedented contraction in private sector business activity in April

A substantial drop in output across the private sector in April stemmed from record contraction among both manufacturers and service providers. The IHS Markit Composite PMI Output Index* posted 13.9 at the start of the second quarter, down notably from 39.5 in March. The latest figure signalled the sharpest contraction in private sector business activity since data collection began in October 2001.

Contributing to the decrease in output was a marked decrease in new business. Manufacturers and service providers alike registered a record rate of contraction, as clients cancelled or postponed new orders amid the COVID-19 pandemic. Foreign client demand also declined at by far the fastest pace since data collection for the series began in September 2014. Meanwhile, a depreciation of the ruble and more challenging working environments led to the second-fastest rise in cost burdens for over a year. That said, discounting across the service sector weighed on charges, which rose only fractionally overall.

At the same time, private sector firms cut their workforce numbers at an unprecedented rate amid burgeoning spare capacity. The significant drop in client demand reduced new order inflows, with firms seeing the sharpest fall in backlogs of work on record.

*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.

Commenting on the latest survey results, Siân Jones, Economist at IHS Markit, said:

“The impact of the COVID-19 outbreak had a hugely detrimental effect on the Russian services sector, as lockdowns and other emergency public health measures imposed operational challenges for service providers. At the same time, client demand tumbled at an unprecedented rate amid the global nature of business closures.

“The sudden shock to business operations became blatantly apparent in April, as new order inflows dried up and firms cut employment at the sharpest rate in the series history.

“Pessimism felt across the manufacturing sector towards output over the coming year was reflected by their service sector counterparts. In line with negative expectations among private sector firms, we currently forecast a 3.6% contraction in GDP in 2020.”
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### 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.

### Survey dates and history

April data were collected 7-28 April 2020.

Survey data were first collected October 2001.

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IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world’s leading financial institutions.

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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. [ihsmarkit.com/products/pmi.html](http://ihsmarkit.com/products/pmi.html).