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IHS MARKIT RUSSIA SERVICES PMI®

INCLUDING IHS MARKIT RUSSIA COMPOSITE PMI®

Renewed increase in business activity in July

KEY FINDINGS

Output and new business return to expansion territory

Employment contracts at fastest pace since February 2016

Input prices rise at quicker rate

July PMI® data indicated a fractional increase in business activity across the Russian service sector following a slight contraction in June. The expansion in output was supported by a return to growth in new business. Although expectations among service providers towards the year ahead strengthened slightly, firms reduced their workforce numbers at a quicker pace amid weak underlying demand conditions. Backlogs of work also fell at the quickest pace since February 2016.

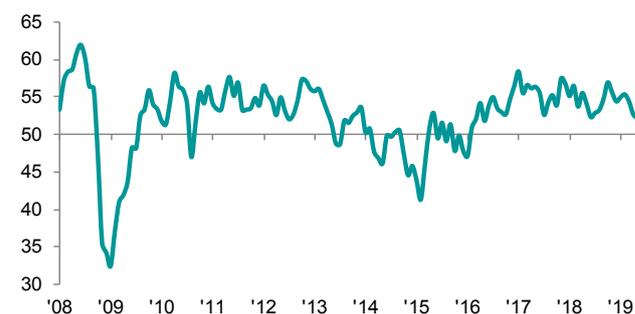
Meanwhile, rates of both input cost and output price inflation remained historically subdued despite picking up from June's recent lows.

The IHS Markit Russia Services Business Activity Index – a single-figure measure designed to track changes in total Russian services activity – posted 50.4 in July, up from 49.7 in June to signal a fractional improvement in business activity among Russia service providers. Greater output was generally attributed to an increase in new business and new client acquisitions. The rate of growth was well below the series average (since 2001) and the 2018 trend, however.

Supporting the return to growth in business activity was a fractional rise in new orders across the service sector at the start of the third quarter. Where a rise was reported, panellists linked this to greater demand from new and returning customers. At the same time, however, new export orders fell for the first time since September 2018. The decrease in foreign client demand was marginal overall, with firms stating that lower tourism numbers and a drop in

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

advertising had weighed on growth.

In line with weak underlying demand conditions, Russian service providers registered a third successive monthly decline in employment. The fall in staffing levels accelerated and was the sharpest since early-2016.

Meanwhile, the level of outstanding business declined at a faster pace in July. The marked decrease in incomplete work was linked to sufficient capacity at service sector firms. The rate of backlog depletion was the quickest since February 2016.

On the price front, input cost inflation ticked up in July. The rate of increase accelerated for the first time since January's VAT-driven spike and was the sharpest for three months. Nonetheless, the pace of inflation was relatively muted in the context of the series history.

Firms continued to partly pass higher cost burdens on to clients in July, with the rate of charge inflation broadly in line with June's nine-month low.

Finally, business expectations picked up at the start of the third quarter, with service providers stating that investment in advertising, hopes of more favourable external demand conditions and the launch of new service lines drove optimism.

IHS MARKIT RUSSIA COMPOSITE PMI®

Further contraction in new business in July

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 registered 50.2 in July, up from 49.2 in June. According to the latest data the Russian private sector saw a renewed, albeit fractional, increase in business activity. A slight contraction in manufacturing output was outweighed by a return to growth across the service sector.

In contrast, new business received by firms remained in contraction territory in July. A slight decline in client demand across the manufacturing sector drove the overall decrease. Meanwhile, new export orders also fell as goods producers and service providers alike registered a downturn.

Despite relatively weak demand conditions, business confidence strengthened in July. Manufacturing firms continued to record a subdued degree of optimism.

At the same time, the rate of job shedding quickened, despite a return to employment growth in the manufacturing sector. The level of outstanding business meanwhile fell and at the fastest rate since January 2016 amid softer demand conditions.

On the price front, inflationary pressures remained historically subdued in July. Although the rate of increase in input costs quickened, it was below the series trend. Output charges rose at the slowest rate since March 2018.

COMMENT

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

"The Russian service sector signalled a slight bounce-back in July, with business activity and new orders returning to expansionary territory. That said, foreign and domestic client demand was lacklustre. Subsequently, firms were discouraged from hiring more staff, as employment fell at the fastest pace since early-2016.

"The effects of January's hike in VAT have seemingly played out in full, as rates of input price and output charge inflation rose for the first time since the start of the year. Nonetheless, inflationary pressures remained historically subdued.

"At the composite level, muted client demand weighed on growth as new business continued to decrease. Overall employment declined at the quickest pace since April 2016 as business activity rose only very slightly."

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.

July 2019 data were collected 12-29 July 2019.

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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