

Embargoed until 0900 MSK (0600 UTC) 5 March 2019

## IHS MARKIT RUSSIA SERVICES PMI®

INCLUDING IHS MARKIT RUSSIA COMPOSITE PMI®

### Business activity growth picks up to three-month high in February

#### KEY FINDINGS

Output rises at strong rate

New business increases sharply

Employment growth accelerates to 12-month high

February data signalled a faster rise in business activity across the Russian service sector. The upturn in output accelerated to a three-month high amid a sharp increase in new business. Although expansions in new orders and new business from abroad eased, they compared favourably with their respective long-run trends. A sustained rise in new orders led to increased hiring, with firms registering the fastest rate of job creation for a year. Nevertheless, backlogs continued to contract. In line with robust client demand, business confidence remained upbeat. The degree of optimism was one of the strongest over the past seven-and-a-half years.

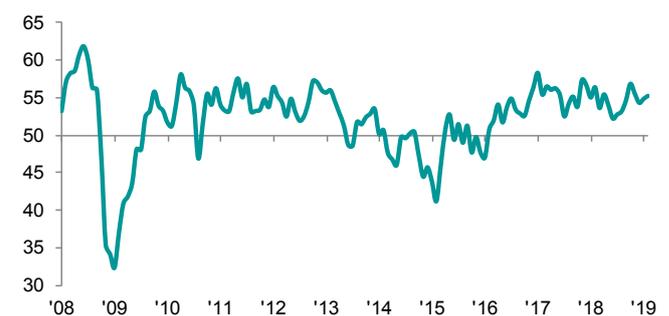
Following the recent hike in VAT, inflationary pressures remained historically steep in February. The pace of increase in cost burdens was one of the fastest in over seven-and-a-half years.

The IHS Markit Russia Services Business Activity Index – a single-figure measure designed to track changes in total Russian services activity – posted 55.3 in February, up from 54.9 in January. The latest expansion in business activity was strong overall and the quickest since last November. Anecdotal evidence suggested the rise was due to the acquisition of new clients and more favourable demand conditions across the service sector.

Similarly, new business growth was elevated in February. The rate of increase softened slightly from January, but was broadly in line with those seen since last October and faster than the series trend. Panellists stated that stronger client

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

demand drove the latest expansion. Moreover, new business from abroad increased for the fifth successive month in February. The expansion was solid, despite slipping to a three-month low.

In line with a sharp increase in new business, service providers registered a stronger rate of job creation in February. Furthermore, the rise in workforce numbers, which stemmed from greater business requirements, was the quickest for a year. Panellists noted a faster rise in employment despite backlogs contracting for the fifteenth successive month. The fall in backlogs quickened and was moderate overall. A number of survey respondents linked the fall in work-in-hand to efficiency gains.

The recent hike in VAT continued to impact upon cost pressures across the Russian service sector in February. The rate of input price inflation eased from January, but remained elevated and was the second-fastest rise since December 2014. Higher fuel and raw material costs were also highlighted by panellists as helping drive the increase in cost burdens.

Consequently, firms reportedly sought to pass on higher input costs to their clients. The rate of output charge inflation softened from January's recent peak but was nonetheless the second-quickest since April 2018.

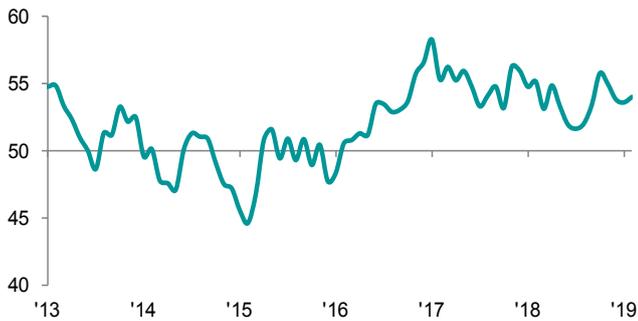
Finally, business expectations towards the year ahead picked up. Confidence was among the strongest since mid-2011.

## IHS MARKIT RUSSIA COMPOSITE PMI®

## Output growth accelerates to three-month high

Composite Output Index

sa, &gt;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 54.1 in February, up from 53.6 in January. The faster overall rise in output stemmed from quicker expansions in both the manufacturing and service sectors.

Conversely, the upturn in new business softened in February. Although service providers registered a sharp rate of growth, manufacturers signalled only a marginal rise in new orders. Moreover, the overall increase was the slowest since last September.

Despite the rate of backlog depletion accelerating in February, panellists signalled a faster rise in employment. Manufacturing firms indicated a return to job creation, whilst service providers registered the quickest rise in workforce numbers for a year.

Although inflationary pressures eased from January, the rates of both input cost and output charge inflation remained historically sharp in February. The increase in output prices was the second-fastest in the past four years, reflecting the recent hike in VAT and greater cost burdens.

Finally, business confidence improved across both the manufacturing and service sectors in February. Despite muted demand conditions in the manufacturing sector, firms were upbeat towards the one-year outlook for output.

### COMMENT

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

*"Russian service sector business activity growth accelerated in February, supported by another sharp monthly rise in new business. Firms were more upbeat towards future output, despite a slowdown in growth of foreign demand and intensifying cost pressures."*

*"At the composite level, hiring activity quickened to the strongest since May 2011 as panellists signalled a robust degree of confidence in the year-ahead outlook."*

*"The recent hike in VAT continued to be mentioned as a key driving factor behind higher output prices, with service sector cost burdens rising at the second-fastest pace for over four years. That said, the Central Bank of Russia kept interest rates unchanged at 7.75% as it continued to assess the wider economic landscape."*

## CONTACT

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### 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.

February 2019 data were collected 12-26 February 2019.

For further information on the PMI survey methodology, please contact [economics@ihsmarkit.com](mailto:economics@ihsmarkit.com).

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### About PMI

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

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