

Purchasing Managers' Index™
MARKET SENSITIVE INFORMATION
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IHS Markit Russia Services PMI® – (with Composite PMI® data)

Russian services business activity growth remains strong in May

Key points:

- Rates of output and new business growth soften, but remain steep
- Employment growth weakest in 17 months
- Input price pressures remain marked

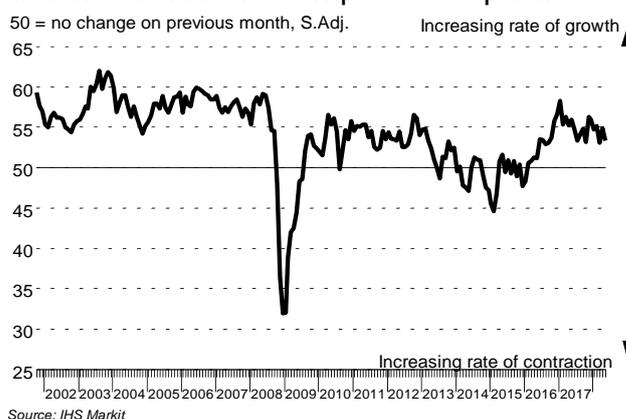
Data collected May 11-29

May survey data signalled a strong increase in business activity across the Russian service sector. That said, the expansion was weaker than in April. Similarly, the rate of growth in new business was down from those seen at the turn of the year, but remained substantial. Reflective of a slightly weaker increase in client demand, backlogs continued to contract and the latest upturn in employment was the slowest in 17 months. Meanwhile, price pressures remained steep, with the rate of input cost inflation the second-fastest since August 2016.

The **IHS Markit Russia Services Business Activity Index** – a single-figure measure designed to track changes in total Russian services activity – posted 54.1 in May, down from 55.5 in April. The latest survey data signalled the twenty-eighth consecutive month of increased output levels. Despite business activity growth softening to below the long-run series average, it remained strong. Panellists attributed the expansion to greater demand from new clients.

The **IHS Markit Russia Composite Output Index** (covering both manufacturing and services) posted

IHS Markit Russia Composite Output Index



53.4 in May, down from 54.9 in April. The latest overall upturn in output was solid, but weaker than the average in the current 28-month sequence of expansion.

In line with the acquisition of new clients, new business received by service providers increased strongly. Although the rate of expansion matched the long-run series average, it was weaker than those seen that the start of the year. Unlike their service sector counterparts, manufacturers signalled only a fractional expansion in new orders in May.

Operating capacities showed no sign of strain in May despite new business growth outstripping that of output. Backlogs contracted for the eighth time in the last nine months, with the rate of depletion accelerating from that seen in April. Anecdotal evidence suggested the fall was due to more efficient business processes. Manufacturing firms

also indicated a fall in outstanding business. The rate of contraction accelerated and was solid overall.

Reflective of weaker pressure on capacities, service sector firms increased their payroll numbers only fractionally. The rate of job creation softened for the third successive month and was the weakest in the current 17-month sequence of expansion. For the fifth time in the last seven months, employment levels contracted in the manufacturing sector.

Input prices continued to rise in May, placing strain on profit margins. The rate of inflation in the service sector was the second-fastest since August 2016 and marked overall. Where an increase in costs was reported, panel members largely linked this to higher wages and fuel prices. Goods producers also reported a marked rise in costs, with the rate of input price inflation accelerating to the fastest since September 2015.

Meanwhile, service providers' output charges increased further in May. Although the rate of inflation eased from April's 38-month high, it was solid and quicker than at any other point since August last year. Panellists stated that greater charges stemmed from higher input costs, which were partly passed through to clients. Similarly, manufacturing output charge inflation softened from April's recent high. That said, the pace of increase was strong nonetheless.

Business confidence among services firms remained strong in May, despite dipping below the long-run series average. Expectations towards company performance over the coming year were driven by a sustained upturn in business activity and hopes of more favourable market conditions. Manufacturers signalled a similar degree of confidence in the outlook for output for the coming year. Although the level of optimism dipped to a five-month low, it was robust overall.

Comment:

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

"May survey data signalled a slight loss of growth momentum in the Russian service sector. New order growth also dipped, but remained strong overall. A lack of strain on capacities was reflected in the weakest rate of job creation in the current 17-month sequence of workforce expansion."

"Although slightly weaker than April's recent high, price pressures remained marked in May. Input cost inflation was the second-fastest since August 2016, reportedly driven by higher wages and fuel costs."

"Looking at the overall picture, the IHS Markit Russia Composite Output Index signalled a solid, but softer expansion in May. Weaker rates of growth in both the manufacturing and service sectors drove the dip in performance."

-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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