

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

Business activity growth slips to 14-month low in July

Key points:

- Services output growth only moderate and slowest since May 2016
- New order expansion dips to nine-month low
- Lowest degree of confidence since December 2016

Data collected July 12-27

Business activity at Russian service sector firms continued to grow in July, although the pace of expansion slipped to the weakest since May 2016. In line with this, the latest upturn in new orders was modest and the softest since last October. Meanwhile, business confidence fell to the lowest level in 2017 so far, but remained robust overall. On the price front, both input and output price inflation were moderate in the context of the respective series histories despite accelerating. The pace of job creation and growth in backlogs were similar to those seen in June.

The **IHS Markit Russia Services Business Activity Index** – a single-figure measure designed to track changes in total Russian services activity – posted 52.6 in July, lower than the reading of 55.5 registered in June. The latest figure signalled a weaker expansion in business activity that was moderate overall and below the long-run series average. Although a number of respondents linked the upturn in output to higher new orders, others raised concerns regarding relatively weak demand for their products.

Manufacturing output growth accelerated to reach a



six-month high. However, the **IHS Markit Composite Index** (covering both manufacturing and services) posted 53.4 in July, down from 54.8 in June. This signalled the weakest composite output expansion in ten months.

New orders received by Russian service providers grew at a modest pace in July, extending the current sequence of growth which began in February 2016. Anecdotal evidence suggested that increased client activity was behind the upturn. That said, the pace of the expansion was the weakest in nine months, with some panel members suggesting that there was a reduction in demand for their services. Meanwhile, manufacturing new orders expanded solidly, and at the strongest pace since January.

In line with relatively subdued expansions in business activity and new orders, business confidence among Russian service providers fell to the lowest in 2017 so far. Although optimism among

some panellists was buoyed by economic growth forecasts, others were concerned about future market conditions. Matching their service sector counterparts, firms in the manufacturing sector were also less confident about the coming 12 months. Optimism was the lowest since January 2016.

Inflationary pressures were moderate overall in July. The latest rise in cost burdens was attributed to higher input costs, especially utility and outsourcing prices. Although input price inflation accelerated to a three-month high, it remained below the long-run trend level. Average prices charged also increased at a relatively muted pace. Similarly, prices in the manufacturing sector rose at rates below the historical trend levels.

Employment in the Russian service sector expanded for the seventh consecutive month in July. The rate of job creation was marginal, however, and slightly below the long-run series average. Conversely, the manufacturing sector registered a fifth consecutive month of job shedding.

Similarly, the growth rate of services backlogs was broadly unchanged from the modest pace seen in June. The level of outstanding business grew for the second month running in July, with surveyed firms stating that an upturn in new orders was a key contributing factor. Goods producers signalled the strongest expansion in backlogs since data collection began in January 2003.

Comment:

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

“Business activity in the Russian service sector continued to grow in July, although the pace of expansion eased notably from June to the lowest in 14 months. That said, the upturn in new orders was moderate and nonetheless backlogs rose for a second month running.

“In line with weaker expansions in business activity and new orders, the degree of optimism in the sector was the weakest so far this year. Although still largely confident about the coming 12 months, some firms raised concerns about future market conditions.

“The Composite Index signalled a softer output expansion in July, due to accelerated growth in the manufacturing sector being outweighed by a slower service sector upturn. IHS Markit forecasts year-on-year GDP growth for the third quarter to be 1.6%, lower than the 3.2% expected in the second quarter.”

-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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