

**EMBARGOED UNTIL: 02:01 (Moscow) July 17<sup>th</sup> 2017 / 23:01 (UTC) July 16<sup>th</sup> 2017**

# IHS Markit Russia Business Outlook

## Business confidence among Russian firms remains solid

### Key findings:

- Sentiment second-strongest in past three-and-a-half years
- Solid price pressures expected over the course of the next year
- Softer business revenue and profitability forecasts

Data collected June 12-28

The latest IHS Markit Business Outlook Survey indicates ongoing optimism in the Russian private sector in June. The degree of confidence in future business activity is the second-strongest since February 2014. At +25%, the net balance of firms forecasting growth is down from +28% and signals a slight dip in confidence since February. Growth expectations are broadly in line with other BRIC economies (+24%), but lower than the global average (+31%).

Optimism regarding future business activity is softer in both the manufacturing and service sectors, with the former signalling the stronger fall in sentiment. The net balance of manufacturing firms expecting growth is +27%, which is the second-strongest since June 2015. Service sector firms, meanwhile, indicate the second-highest level of optimism since February 2014, with the net balance at +25%. Forecasts for new order growth follow a similar trend to business activity for both goods producers and service providers.

Expectations regarding prices signal greater certainty towards an upturn in cost burdens and output prices over the next 12 months. The net balance of firms forecasting input price inflation has risen from +26% in February to +33% in June. Fewer firms also predict a rise in profits in the next year, though the net balance remains positive.

### Russia business activity expectations



Russian firms forecast modest growth in employment over the next 12 months. After expectations reached an almost three-year peak in February, confidence towards staffing levels has fallen (+12% to +10%) and is below the global average (+17%).

### Inflation expectations strongest since February 2016

Russian firms foresee an increase in cost burdens in the year ahead. Following relatively soft inflation expectations in each of the previous three surveys, latest forecasts are the strongest since February 2016. The net balance is well above the global and BRIC economy averages. Service sector firms expect the stronger rise in costs. The net balance of companies anticipating average output price increases has risen from +30% in February to +33% in June.

### Business revenue forecasts remain strong

Expectations for future revenues and profits remain solid, with the respective net balances among the highest seen since mid-2013. Net balances for both business revenues and profits are slightly lower than February's recent peaks, at +32% (+33% in February) and +24% (+26% in February), respectively.

Anecdotally, firms cite changes to fiscal policy as a potential threat to higher profits.

### Investment environment remains mildly positive

Sentiment among Russian firms towards future capital investment has softened since the start of the year but remains positive, the net balance falling from +13% in February to +10% in June. The net balance is lower than the BRIC and global averages, which are +13% and +14% respectively.

#### Comment:

Commenting on the Russia Business Outlook survey data, **Sian Jones**, Economist at IHS Markit, said:

*“Optimism within the Russian economy remains solid and slightly above BRIC averages for business activity and new business. Following robust responses in the last two outlook surveys, confidence looks to have recovered from the lows over the past three years.*

*“Expectations for business revenues outstrip those of other BRIC economies (except Brazil) and profit forecasts are in line with the global average. Although net balances have generally fallen from February, sentiment remains positive in both the manufacturing and service sectors.*

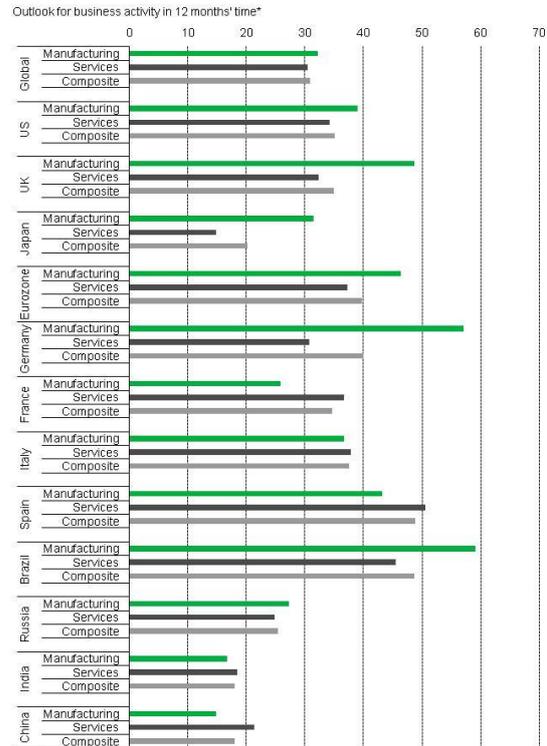
*“Forecasts for inflationary pressures over the next year show signs of uncertainty regarding the strength of the ruble, with input price expectations the highest since February 2016. Firms also anticipate output charges rising as they endeavour to protect profit margins.*

*“Even so, a further solid forecast for new business and an anticipated rise in capex suggest firms in the Russian private sector are looking towards a recovery in the near-term and are planning for a brighter future.”*

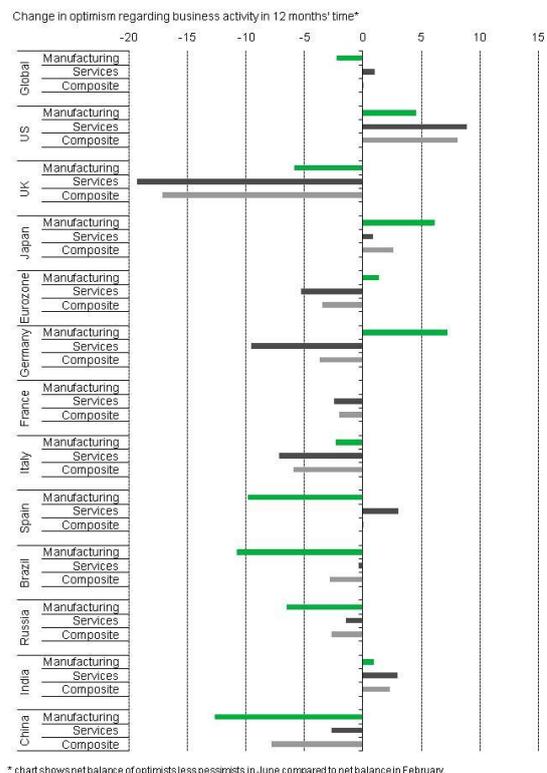
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Full data available on request from [economics@ihsmarkit.com](mailto:economics@ihsmarkit.com)

### Business optimism in June



### How business activity expectations have changed since February



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**Notes to Editors:**

The Global Business Outlook Survey for worldwide manufacturing and services is produced by IHS Markit and is based on a survey of around 12,000 manufacturers and service providers that are asked to give their thoughts on future business conditions. The reports are produced on a tri-annual basis, with data collected in February, June and October. The latest survey was conducted between June 12 and 28.

Interest in the use of economic surveys for predicting turning points in economic cycles is ever increasing and the Business Outlook survey uses an identical methodology across all nations covered. It gives a unique perspective on future business conditions from Global manufacturers and service providers.

The methodology of the Business Outlook survey is identical in all countries that IHS Markit operates. This methodology seeks to ensure harmonization of data, and is designed to allow direct comparisons of business expectations across different countries. This provides a significant advantage for economic surveillance around the globe and for monitoring the evolution of the manufacturing and services economies by governments and the wider business community.

Data collection is undertaken via the completion of questionnaires three times a year at four-month intervals. A combination of phone, fax, website and email are used, with respondents allowed to select which mechanism they prefer to use.

The Business Outlook survey uses net balances to indicate the degree of future optimism or pessimism for each of the survey variables. These net balances vary between -100 and 100, with a value of 0.0 signalling a neutral outlook for the coming twelve months. Values above 0.0 indicate optimism amongst companies regarding the outlook for the coming twelve months while values below 0.0 indicate pessimism. The net balance figure is calculated by deducting the percentage number of survey respondents expecting a deterioration/decrease in a variable over the next twelve months from the percentage number of survey respondents expecting an improvement/increase.

Questionnaires are sent to a representative panel of around 12,000 manufacturing and services companies spread across the global economy in the countries mentioned above. Companies are carefully selected to ensure that the survey panel accurately reflects the true structure of each economy in terms of sectoral contribution to GDP, regional distribution and company size. This panel forms the basis for the survey. The current report is based on responses from around 7,000 firms.

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