

Purchasing Managers' Index™
MARKET SENSITIVE INFORMATION
EMBARGOED UNTIL: 09:00 (Moscow) / 06:00 (UTC), October 3rd 2018

IHS Markit Russia Services PMI® – (with Composite PMI® data)

Service sector business activity growth accelerates in September

Key points:

- Output expansion quickens to reach five-month high
- Rate of new order growth accelerates to fastest since May
- Input price inflation picks up, but charges rise at slower rate

Data collected September 12-26

September data indicated a strong expansion in business activity across the Russian service sector. Firms signalled the fastest rise in output since April amid a quicker increase in new business. That said, there remained little pressure on capacity, with both employment and backlogs contracting further. Meanwhile, the rate of input price inflation accelerated amid reports of an unfavourable exchange rate helping push up purchase prices. The pace of charge inflation, however, eased to an eight-month low. Despite robust growth in activity, business confidence was still relatively subdued.

The **IHS Markit Russia Services Business Activity Index** – a single-figure measure designed to track changes in total Russian services activity – posted 54.7 in September, up from 53.3 in August. The latest figure signalled a strong increase in business activity that was the quickest for five months. Although the rate of expansion in September was just below the long-run series trend, the average for the third quarter of 2018 was the weakest for over two years.



The **IHS Markit Russia Composite Output Index** (covering both manufacturing and services) registered 53.5 in September, up from 52.1 in August. Growth continued to gain momentum, with the rate of expansion accelerating to the fastest since April. The overall figure was driven by a quicker rise in service sector business activity and the first increase in production since June.

Service providers recorded an accelerated rise in new business in September amid reports of stronger client demand. Others stated that the acquisition of new clients had boosted new order growth. The increase in new business picked up momentum and was the fastest since May and strong overall. Manufacturing firms meanwhile registered the first monthly rise in new orders since May. However, the increase was only fractional overall.

Despite a sustained upturn in client demand, strain on capacity was muted. Backlogs of work in the service sector contracted for the tenth successive month, albeit at a slightly weaker rate than in August. The rate of depletion in outstanding business was nonetheless solid and faster than the series trend. Manufacturers recorded a thirteenth consecutive monthly fall in backlogs in September, albeit the weakest decline since May.

Employment at service sector firms also fell, extending the current sequence of job shedding to four months. Workforce numbers fell at the softest pace since June, however. Conversely, goods producers signalled an increase in staffing levels in September, ending a four-month sequence of job shedding.

On the price front, average purchase costs paid by service providers increased sharply in September. The accelerated rise in cost burdens was widely attributed to an unfavourable exchange rate, which pushed up the price of imported items. Manufacturers also noted a marked rise in cost burdens, despite the rate of inflation easing slightly.

Although client demand strengthened and pressure on profit margins intensified, service providers noted a reluctance to raise output prices. The rate of charge inflation dipped to an eight-month low and was marginal overall. Where an increase was reported, respondents linked this to higher input costs and exchange rate factors. Average factory gate charges increased sharply in September, with the rate of inflation accelerating to the fastest in five months.

Business confidence improved in September, with service sector firms recording greater optimism towards future output. That said, expectations were subdued in the context of the series history. Manufacturing firms registered an improvement in optimism, with the degree of confidence rising to the highest since May 2014.

Comment:

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

“Service sector business activity growth picked up further in September, with the rate of expansion reaching a five-month high. New business also showed signs of a strong upturn, accelerating to the fastest since May.

“That said, businesses are building from fragile demand conditions, with little sign of strain on capacity. Firms continued to let go of staff and outstanding business fell for the tenth straight month.

“Uncertainty towards the future was reflected in only a marginal rise in prices charged for services despite an ongoing squeeze on profit margins. In fact, the rate of output price inflation dipped to an eight-month low.

“A more positive story was seen across the wider economy, with the IHS Markit Composite Output Index reaching a five-month high.”

-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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