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IHS MARKIT RUSSIA SERVICES PMI®

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Business activity upturn remains sharp in November

KEY FINDINGS

Second-fastest rate of output growth since February

New export orders increase at quicker pace

Employment rises at strongest rate since April

Russian service sector firms registered a sharp rise in business activity in November. The upturn in output was supported by a robust increase in new business which was the second-fastest in a year. Foreign demand also strengthened, with new export orders expanding at the quickest rate since July. In response to the sustained upturn in new orders, firms increased their workforce numbers for the second successive month, reducing the strain on capacity and leading to a strong fall in backlogs. Inflationary pressures remained elevated, and rates of increase in both input prices and output charges were some of the fastest in the last three-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 55.6 in November, down from 56.9 in October. The latest expansion was sharp overall and the second-fastest since February (behind October's 11-month high). As well as an increase in client demand, panellists attributed output growth to a quicker rise in new business and the launch of new products.

New business received by Russian service providers grew at the second-strongest rate in a year in November. The rise in new orders was commonly linked to new client acquisitions and increased contract wins. The expansion was robust despite dipping from October's recent peak.

Increased client demand was broad-based in November, with exporters also registering a faster rise in new business from abroad. Growth picked up to a four-month high and

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

was solid overall.

Reflective of a sharp upturn in new business, service providers were encouraged to expand their staffing numbers in November. The rate of job creation was only marginal overall, but nonetheless the most marked since April.

Backlogs of work contracted for the twelfth consecutive month in November, with pressure on capacity easing amid increased hiring activity. Moreover, the rate of depletion in outstanding business was the quickest for three months and strong overall.

Meanwhile, input price inflation remained marked, with greater cost burdens reportedly stemming from higher fuel prices and a stronger dollar exchange rate which pushed up the price of imported purchases. Although slower than that seen in October, the rate of inflation was one of the most robust in the last three-and-a-half years.

Consequently, service sector firms continued to increase output charges at a solid rate. Panellists stated that higher output prices reflected greater cost burdens.

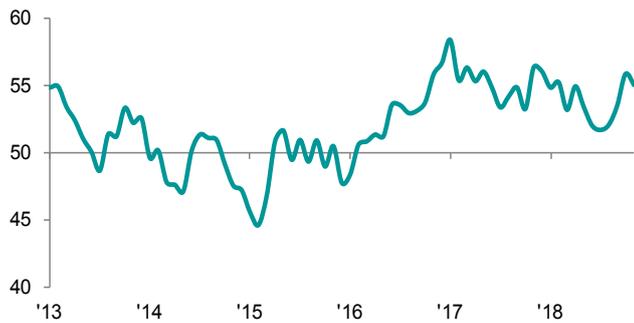
Finally, output expectations towards the coming 12 months moderated in November. Service providers expressed a robust degree of confidence that was broadly in line with the long-run series average. Optimism reportedly stemmed from a sustained rise in new business and increased advertising activity.

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Composite new order growth reaches 12-month high

Composite Output Index

sa, >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 posted 55.0 in November, down from 55.8 in October. The latest output expansion was strong overall and the second-fastest since February.

A sharp upturn in new business across the service sector and an accelerated rise in new orders in the manufacturing sector led to the strongest increase in order book volumes since November 2017.

Consequently, Russian firms increased their workforce numbers at a moderate rate that was the fastest since April. The pace of job creation in the manufacturing sector was the fastest since January 2017, largely stemming from greater production requirements.

On the price front, private sector firms registered a marked rise in input costs in November. Higher fuel and raw material prices were commonly linked to the increase in cost burdens. Subsequently, output prices charged by Russian companies rose solidly and at one of the fastest rates in over three years.

Although manufacturers expressed a greater degree of confidence towards future output, service providers were a little more cautious in their outlook for the coming year.

COMMENT

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

"Russian service providers showed resilience in November, registering another sharp expansion in business activity. New order growth remained steep amid stronger domestic and foreign demand."

"Despite a faster decline in backlogs, services firms continued to expand workforce numbers, with the rate of job creation reaching a seven-month high."

"Meanwhile, fuel and import costs continued to rise markedly. Nonetheless, buoyed by an improvement in client demand, service providers were encouraged to raise output charges solidly. As such, some strain was taken off profit margins."

"Following on from robust sentiment expressed in the recently released Russia Outlook survey towards the coming 12 months, private sector firms signalled another strong expansion in November. Moreover, composite new orders increased at the fastest pace for 12 months, amid strengthening demand in the manufacturing sector."

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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.

November 2018 data were collected 12-28 November 2018.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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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.

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