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IHS Markit Russia Business Outlook

Russian business optimism strongest since June 2013

Key findings:

- Sentiment reaches highest in over four years
- New business expectations increase to the joint-strongest in over three-and-a-half years
- Highest expectations towards job creation in five years

Data collected October 12-27

According to data from the latest IHS Markit Russia Business Outlook survey, private sector firms are the most optimistic regarding future business activity in over four years, reflecting the prospect of larger client bases and new product development. The net balance of firms expecting a rise in business activity has increased from +25% in June to +29% in October. The predicted upturn is expected to be broad-based, with both manufacturers and service providers signalling a rise in positive sentiment.

Forecasts for output growth in the next year have been influenced by the modernisation of production processes, diversification, and greater market development. Panellists note, however, that there are threats to future expansion. These include lower customer demand and increased competition.

Companies in both the manufacturing and service sectors anticipate a solid expansion in new business in the next year, with overall positive sentiment the joint-highest since early-2014. Goods producers' expectations for new order growth are the strongest in over four years.

Amid strengthened optimism surrounding future business activity, firms expect capital expenditure to rise solidly in the next year. Moreover, the degree of optimism on this front is the joint-highest in four years with firms set to modernise their machinery and diversify their product bases.

Russia business activity expectations



Employment & Investment Plans

Employment levels are set to increase at a marked pace in the coming year. October survey data indicates that firms' expectations towards job creation are the highest in five years. This signals the first significant staff hiring expectations since the recent recession.

At the sector level, goods producers foresee workforce numbers increasing steeply in the next year. Furthermore, Russian manufacturing firms are upbeat when compared with the global average. Similarly, service providers report the most robust confidence towards future employment growth since February 2013.

Inflation Expectations

Private sector firms expect softer inflationary pressures over the next year than those forecast in June. Moreover, predictions for input and output price inflation are subdued in the context of the series history. That said, cost burdens and charges are forecast to rise steeply in the manufacturing sector.

Service providers, however, expect a comparatively smaller rise in both input and output prices. Firms

across the sector suggest that prices and costs will increase at relatively muted rates.

Corporate Earnings

Unlike the trends in output and new business expectations, firms' forecasts for growth in business revenues have weakened since June. Although still positive, sentiment towards future revenues is at its lowest level since October 2016. Similarly, firms express a lower degree of confidence towards profitability. Despite this, forecasts for profitability remain above the BRIC average and in line with the global average.

Comment:

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

“Data from the latest IHS Markit Russia Business Outlook survey indicates largely positive forecasts for future business activity and new orders. Optimism towards output growth is the highest since June 2013, while expectations for new orders are the joint-strongest since early-2014.

“Despite reports of new product development and larger client bases, firms are less positive towards anticipated business revenues and profitability than in June. Sentiment has weakened on both fronts for the second survey running to the lowest level in 12 months.

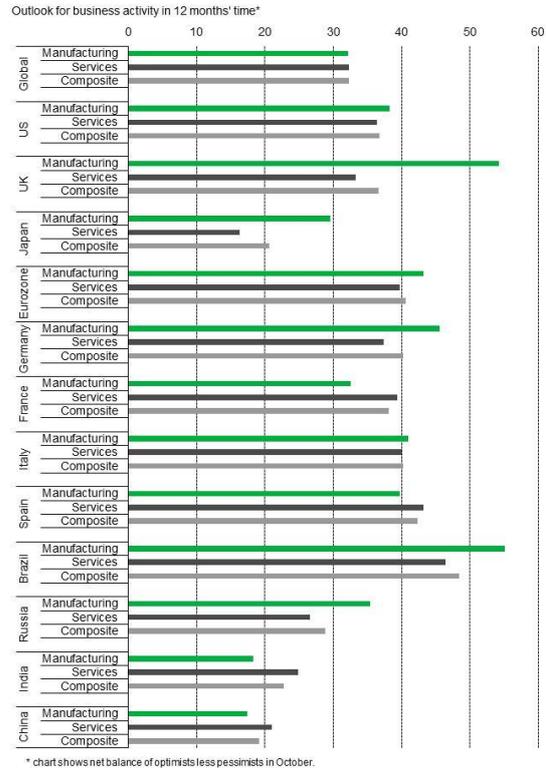
“On a more positive note, job creation looks set to be solid in the coming year with firms reporting the greatest optimism in five years.

“On the price front, manufacturers foresee a sharp rise in costs, and a strong increase in average charges as the burden is passed onto clients over the next year. Service providers, however, anticipate weaker inflationary pressures than they did in June.”

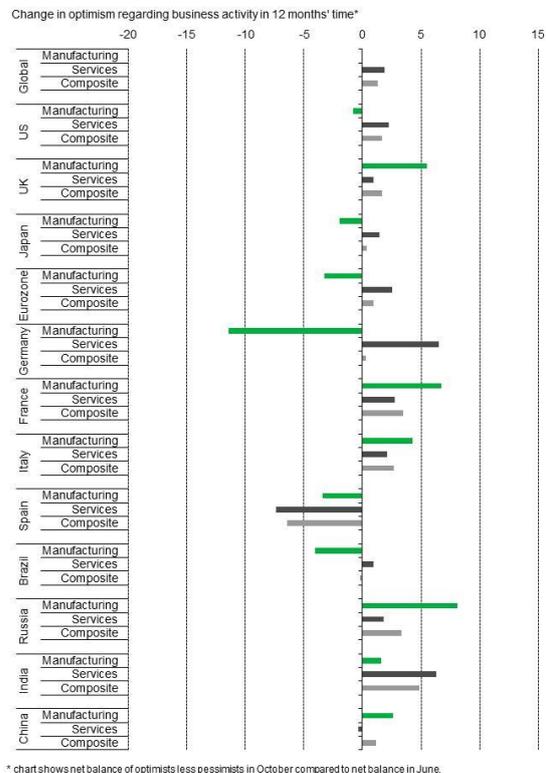
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Full data available on request from economics@ihsmarkit.com

Business optimism in October



How business activity expectations have changed since June



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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 October 12 and 26.

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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