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IHS Markit Russia Services PMI®

Including IHS Markit Russia Composite PMI®

Business activity growth accelerates to seven-month high in February

Key findings

Output returns to growth

Inflationary pressures ease

Business confidence reaches five-month high

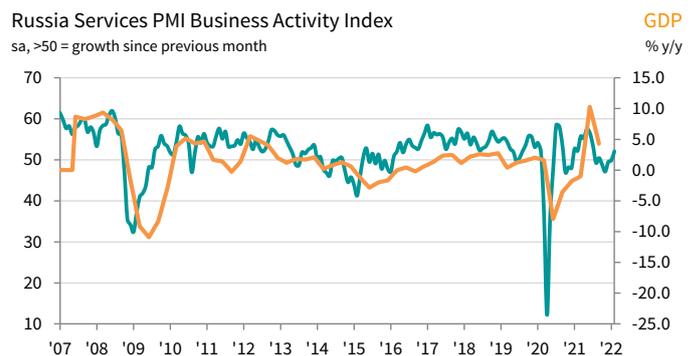
Data were collected 10-24 February 2022.

Russian service providers registered a modest expansion in business activity midway through the opening quarter of 2022. The rise in output followed four months of contraction and was the fastest since last July. Although not in growth territory, new business was broadly unchanged in February. Domestic demand weighed on the upturn, as new export orders returned to growth. Despite moves towards an improvement in demand conditions, firms continued to cut workforce numbers, and at the quickest pace since December 2020. Pressure on capacity waned again, as backlogs of work fell sharply. Nevertheless, business confidence ticked higher and was the strongest since September 2021.

Meanwhile, inflationary pressures remained marked but softened slightly.

The seasonally adjusted IHS Markit Russia Services Business Activity Index registered 52.1 in February, up from 49.8 in January. The latest data signalled a renewed upturn in service sector output. The rise in business activity was the quickest for seven months, despite being only modest overall. Where an increase was noted, some firms linked this to the release of new product lines. Some companies suggested that signs of improvement in customer demand supported the expansion.

February data indicated broadly unchanged levels of new business at Russian service providers. The near-stabilisation in new orders followed a four-month sequence of contraction. A number of firms stated that customer activity was picking up again, whereas others highlighted the pandemic's ongoing impact on client demand.



Sources: IHS Markit, FSSS.

At the same time, new export orders received by Russian service sector firms increased. The result marked the first expansion in foreign client demand since last October.

Average input prices faced by service providers continued to increase in February. Although the rate of cost inflation eased to a three-month low, it remained historically marked. Firms noted that higher operating expenses stemmed from hikes in supplier, rent and fuel costs.

In line with the trend in cost burdens, services firms recorded a softer rise in selling prices midway through the first quarter. The rate of charge inflation was substantial overall, however, and the second-fastest since May 2021.

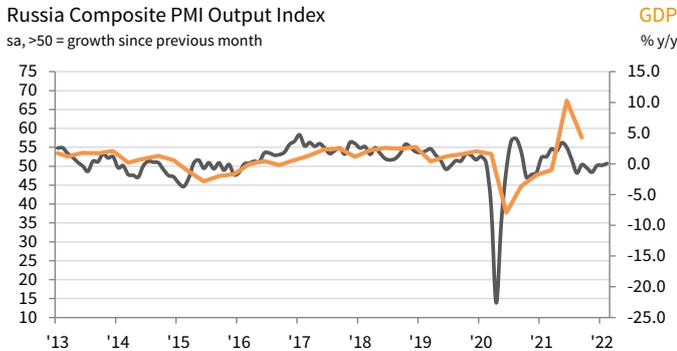
Companies commonly linked the increase in output charges to the pass-through of higher costs to clients.

Meanwhile, relatively muted demand conditions led to a further fall in employment during February. Waning pressure on capacity resulted in the fastest decline in workforce numbers since December 2020 and a sharp decrease in backlogs of work.

Despite a reduced impetus to hire new staff, firms expressed more upbeat expectations regarding the outlook for output over the coming 12 months in February. The degree of confidence was the strongest since September 2021 amid planned investment in new product lines and hopes of an uptick in client demand.

IHS Markit Russia Composite PMI®

Activity growth fastest for seven months, albeit only marginal overall



Sources: IHS Markit, FSSS.

The IHS Markit Russia Composite PMI Output Index* posted 50.8 in February, up slightly from 50.3 in January. Although output growth was only marginal, it was the fastest since last July, despite a renewed contraction in manufacturing production.

New business remained in decline, however, as goods producers registered a solid decrease and service providers saw new orders broadly unchanged from January. At the same time, private sector new export orders fell modestly.

Inflationary pressures remained elevated across the Russian private sector, as input costs and output charges rose at faster paces. Hikes in supplier and business costs increased markedly and were largely passed on to clients through greater charges, according to survey respondents.

Subdued demand conditions at manufacturers and service providers led to a further contraction in employment in February. The rate of job shedding was modest, but the fastest since December 2020. Meanwhile, firms noted another reduction in backlogs of work.

Nonetheless, firms were upbeat regarding the outlook for output over the coming year. The level of optimism was the strongest since May 2019, as manufacturers and service providers recorded greater business confidence.

*Composite indices are weighted averages of comparable manufacturing and services indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The Composite Output Index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index.

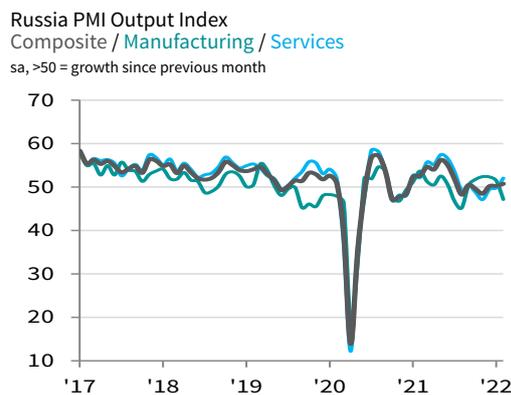
Comment

Commenting on the latest survey results, Siân Jones, Senior Economist at IHS Markit, said:

"Russian service providers registered a pick-up in growth momentum during February, as activity returned to expansion. Although total demand remained historically subdued, firms were buoyed by efforts to invest in new product lines, as business confidence reached the highest since last September."

"Unlike their manufacturing counterparts, services firms noted slightly softer rises in cost burdens and selling prices. Nonetheless, price pressures remained marked. Headwinds to the Russian private sector are building, with inflationary pressures expected to strengthen over the coming months."

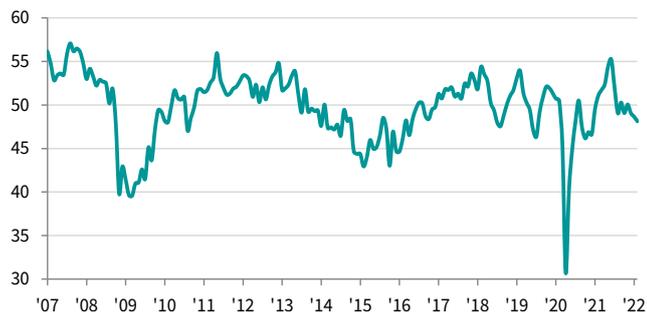
"An expansion in service sector output propped up the private sector, as manufacturers recorded renewed contractions in production and new sales. Although private sector firms were strongly upbeat regarding the outlook, imposed sanctions are expected to hamper growth potential across the Russian economy."



Source: IHS Markit.

Russia Services PMI Employment Index

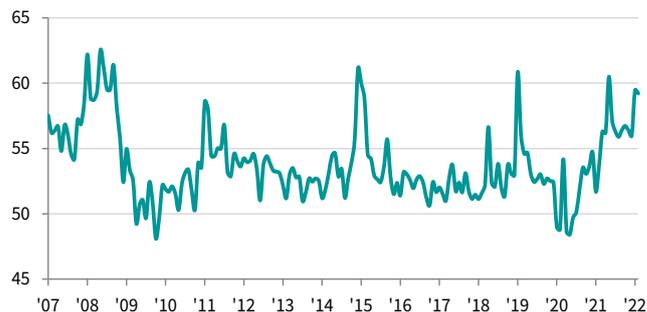
sa, >50 = growth since previous month



Source: IHS Markit.

Russia Services PMI Prices Charged Index

sa, >50 = inflation since previous month



Source: IHS Markit.

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Survey 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 services 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.

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

Survey dates and history

February data were collected 10-24 February 2022.

Survey data were first collected October 2001.

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