

News Release

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S&P Global Russia Services PMI®

Service sector activity increases for first time in five months in February

Key findings

Output expands amid renewed upturn in new business

Cost pressures soften, but output charges rise at sharper rate

Employment returns to growth

Russian service providers reported a renewed upturn in business activity during February, according to the latest PMI® data. The increase in output, which was the first for five months, was solid overall and stemmed largely from a return to growth in new orders. Stronger client demand was in part linked to a more positive outlook for the coming year among customers, as firms also expressed greater optimism for output. At the same time, service providers expanded their staffing numbers for the first time in seven months, in response to greater new business.

Meanwhile, cost pressures lost momentum, as input prices rose at the slowest pace since August 2021. Efforts to pass on higher costs to clients, however, resulted in a sharper uptick in selling prices.

The seasonally adjusted S&P Global Russia Services PMI® Business Activity Index registered 53.1 in February, up notably from 48.7 in January and signalling a solid increase in output across the Russian service sector. The rise in business activity was linked to stronger client demand, the acquisition of new customers and greater interest from clients amid reduced uncertainty. The increase in output was the first since September 2022, with the rate of expansion the second-fastest since July 2021.

Driving growth in output was a renewed increase in new business in February. Russian service sector firms recorded the sharpest rise in new orders since August 2022, with the rate of expansion solid overall. Alongside the acquisition of new clients and uptick in customer demand, firms attributed greater new business to the release of new service lines.

Weighing on the rise in total new business was a further contraction in new export orders at Russian service providers. Companies noted that the fall reflected a reduced customer base due to the impact of sanctions and greater competition for clients. The rate of decline nevertheless eased to the slowest in the current 12-month sequence of

S&P Global Russia Services Business Activity Index

sa, >50 = growth since previous month



Source: S&P Global.

Data were collected 10-24 February 2023.

contraction.

Cost pressures across the Russian service sector softened, as input prices rose at the slowest rate since August 2021 in February. Despite losing some momentum, cost burdens increased at a historically elevated pace, with firms linking this to hikes in supplier prices, greater wage bills and unfavourable exchange rate movements.

In contrast, output charges rose at a quicker rate midway through the first quarter. The rate of increase was faster than the series trend, as companies stated that higher selling prices stemmed from efforts to pass-through elevated input costs to clients.

Buoyed by stronger client demand, Russian service sector firms resumed hiring during February. Employment expanded for the first time since last July, albeit at only a fractional pace. The upturn in workforce numbers was also partly attributed to greater availability of candidates.

Although still signalling excess capacity at Russian service providers, the depletion of backlogs of work eased to the slowest in the current seven-month sequence of contraction. The decline was only fractional overall, as greater new business placed pressure on workloads at some companies.

Russian service providers recorded optimism in the year-ahead outlook for activity for the second successive month in February. The degree of confidence surged higher and was the strongest since July 2022, despite being slightly below the series average. Hopes of greater client demand and the introduction of new service lines supported positive expectations.

PMI®

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S&P Global Russia Composite PMI®

Renewed rise in private sector output amid stronger demand conditions in February

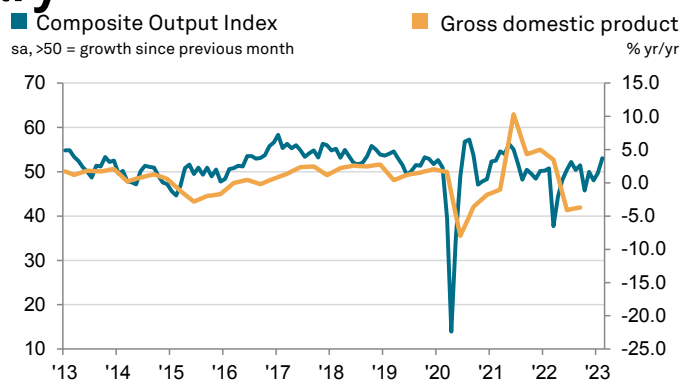
The S&P Global Russia Composite PMI Output Index* posted at 53.1 in February, up notably from 49.7 in January. The latest data signalled a solid expansion in private sector business activity, as a renewed rise in service sector output and a quicker upturn in manufacturing production supported growth.

Stronger demand conditions drove the latest upturn, as goods producers and service providers alike registered an increase in new orders. The expansion continued to stem from domestic customers, as new export orders fell further.

Amid a renewed rise in service sector employment, workforce numbers across the private sector were expanded at a marginal pace. Excess capacity remained apparent, but the rate of contraction in backlogs of work slowed to only a fractional pace.

Meanwhile, input costs continued to rise markedly, albeit at the slowest pace since September 2020. In contrast, there was a broad-based acceleration in output charge inflation, as firms sought to pass on hikes in costs to customers.

*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.



Sources: S&P Global, FSSS.

Contact

Sabrina Mayeen
Corporate Communications
S&P Global Market Intelligence
T: +44 (0)-7967-447030
sabrina.mayeen@spglobal.com

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Survey methodology

The S&P Global Russia Services PMI® is compiled by S&P Global 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. Data collection began in October 2001.

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.

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

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