

S&P Global Russia Business Outlook

Russian business confidence strengthens, as manufacturers express renewed optimism

Key findings

Output expectations improve from June's series low

Price forecasts revised up

Outlook for employment strengthens

The October S&P Global Russia Business Outlook survey highlighted stronger expectations regarding the outlook for output over the coming year at Russian private sector firms. At +14%, the net balance of companies anticipating greater business activity picked up from June's historic low of +5%. That said, the net balance was lower than both the long-run series and global averages (+27% and +17%, respectively). The upward revision in predictions was centred on the manufacturing sector, as expectations among goods-producers returned to positive territory at the start of the final quarter of the year.

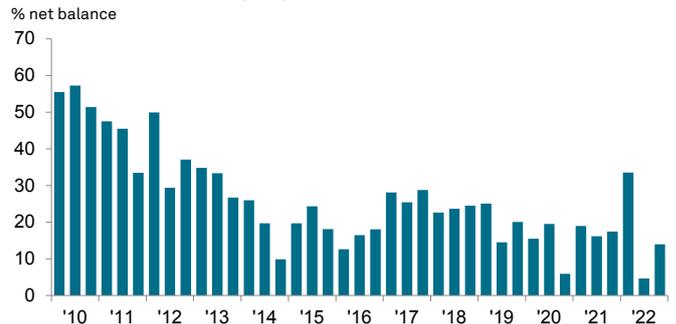
Opportunities for growth reportedly stemmed from investment in new technology and adaptations to operations to facilitate import substitution. Firms also noted greater spending on product development and expansion into new sales markets. At the same time, companies hope for greater stability in economic conditions in Russia.

Meanwhile, firms also identified threats to output growth, which included the impact of sanctions and a drop in purchasing power at customers. Companies noted that a reduction in their customer bases and challenging economic and inflation conditions in key export markets are likely to weigh on activity. Difficulties sourcing and receiving materials were also mentioned as a risk to growth potential over the coming year, as sanctions limit supplier choice.

Price expectations revised up

Russian private sector firms registered upward revisions to their inflation expectations during October.

Russia Business Activity expectations



Source: S&P Global.
Data were collected 12-27 October 2022.

The net balance of companies anticipating higher staff and non-staff costs increased, with the latter reaching the second-highest in three years. Concurrently, the net balance of firms predicting greater staff costs ticked up to the second-highest since data collection for the series began in February 2019.

Anticipated increases in non-staff costs were often linked to challenges finding and ordering materials due to a reduction in supplier availability. Some companies also highlighted difficulties securing finance. Although some firms mentioned plans to reduce workforce numbers to lower cost burdens, others stated that wage bills look set to rise amid a fall in specialist worker availability.

Private sector firms were more upbeat in their expectations regarding output charges in October. Manufacturers and service providers revised their forecasts up, as the overall net balance of companies that foresee greater selling prices over the next year reached the second-highest since February 2015.

Hiring intentions strongest for three years

Employment expectations across the Russian private sector improved in October, as firms foresaw increased workforce numbers over the coming year. The net balance of companies anticipating greater staffing levels was the highest since October 2019 and above the long-run series average. Requirements for

greater employment were often attributed to labour shortages.

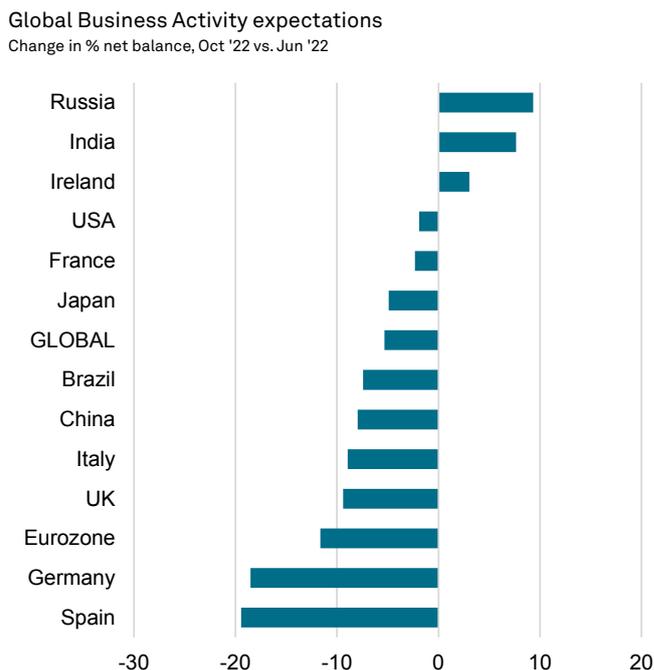
Similarly, private sector firms foresee increases in investment over the next year. The net balances of firms expecting greater capital and R&D (research & development) spending rose notably from June's recent lows. Optimism regarding investment reached the highest since October 2019 as some firms sought to buy new machinery to facilitate import substitution.

Profitability forecasts strengthen

In line with improved expectations regarding selling prices and output, private sector firms revised up their predictions for profits over the next year. The net balance of companies expecting greater profitability rose from +4% in June to +10% and was largely driven by a return to positive sentiment among manufacturers. Moreover, the net balance among goods producers was the highest since February 2019 (+20%).



Source: S&P Global.



Source: S&P Global.
Full data available on request from economics@ihsmarkit.com.

Survey methodology

The Global Business Outlook Survey for worldwide manufacturing and services is produced by S&P Global 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.

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 S&P Global 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, 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 signalling a neutral outlook for the coming 12 months. Values above 0 indicate optimism amongst companies regarding the outlook for the coming 12 months while values below 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 8,000 firms.

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