

News Release

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S&P Global Russia Business Outlook

Russian business confidence strengthens to highest in almost 11 years

Key findings

Stronger expectations for output and profits over the coming year

Employment set to rise...

...but higher staff costs expected to drive inflation

Data were collected 12-28 June 2023.

The June S&P Global Russia Business Outlook survey indicated greater expectations of a rise in output over the coming year, as the net balance of firms anticipating growth reached the highest since October 2012. At +36%, the net balance was greater than the global average (+28%) and among the highest of the monitored countries. Only Ireland (+43%), Brazil (+41%) and the UK (+40%) recorded stronger expectations for output over the coming year. At the sector level, manufacturers were more upbeat in their predictions than service providers, but both saw expectations improve compared to the prior (February) survey.

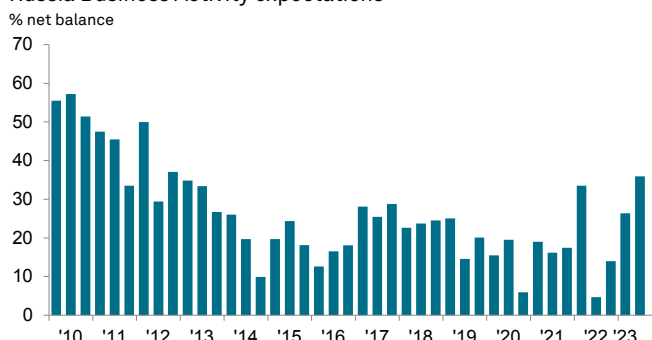
Opportunities for growth in activity largely stemmed from efforts to modernise machinery and facilities, with some also highlighting the digitalisation of working practices. Companies also stated that expansion into new regions and export markets, alongside efforts to diversify product offerings, buoyed expectations. Meanwhile, firms hope to invest in relationships with new clients to ensure repeat custom.

Threats to the outlook remained, however, as firms noted that inflationary pressures look set to intensify and supplier quality continued to deteriorate. Some firms also reported that challenges finding suitably skilled staff may hold back expansion.

Forecasts for employment improve to joint-strongest in 12 years

Russian firms foresee expansions in workforce numbers over the coming year. At +23%, the net balance of companies anticipating greater employment was the joint-highest since June 2011. This compared

Russia Business Activity expectations



Source: S&P Global PMI.

favourably with the global average (+12%), as only Ireland (+30%) recorded more upbeat predictions regarding hiring intentions. Both manufacturers and service providers saw expectations strengthen, with the former registering the joint-highest net balance on record (since January 2008).

In line with reports that investment in new machinery and facilities are expected to spark growth, firms were more optimistic of a rise in capital expenditure (capex) over the coming year in June. The net balance of companies expecting capex to increase was the joint-highest since February 2012. Nonetheless, firms were less confident of greater research & development (R&D) spending over the next 12 months. The net balance of firms that foresee growth in R&D was the lowest in a year, as service providers moderated their expectations notably.

Cost pressures expected to be led by greater wage bills

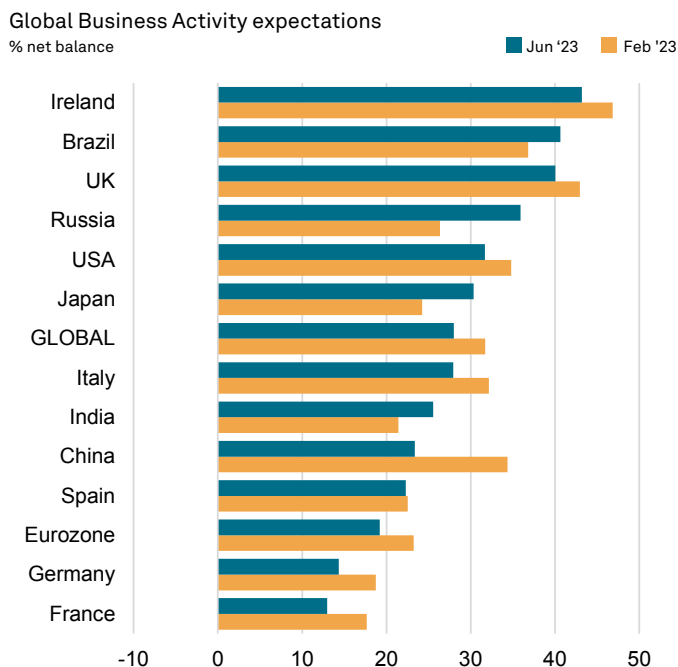
Russian companies anticipate strong inflationary pressures over the coming year, amid expectations of the need to pass further increases in input costs on to customers. Firms predict that cost pressures will be driven in part by higher wages. The net balance of companies that foresee greater staff costs picked up to the second-highest on record (since February 2019), as firms seek to find skilled labour.

At the same time, a downward adjustment to expectations of higher non-staff costs among service providers led to the lowest total net balance of firms expecting a rise in non-staff costs for a year. The net balance of manufacturers predicting higher material and input costs, meanwhile, rose to the highest since February 2022.

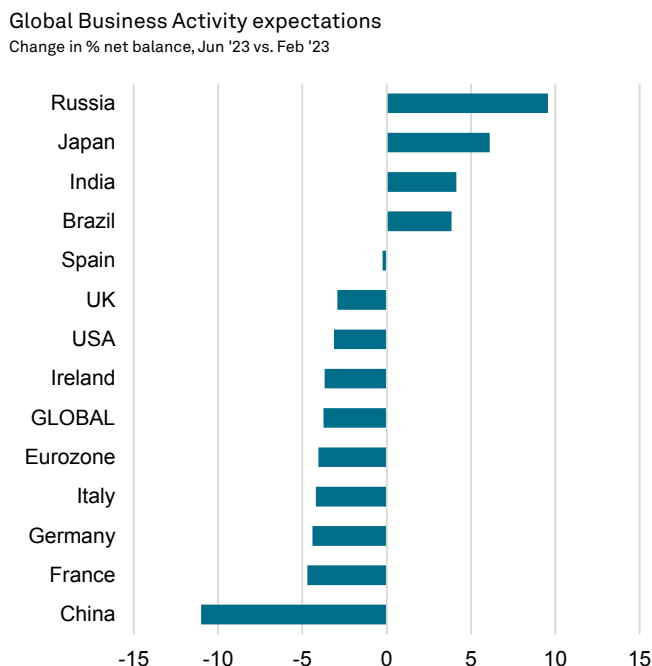
Russian firms were more optimistic regarding their ability to raise output charges over the coming year in June. The proportion of companies anticipating greater selling prices increased to the second-highest since October 2012 (behind February 2022).

Profitability forecasts most upbeat since February 2013

Stronger expectations at manufacturers and service providers regarding profit opportunities over the next year were reflected in the most optimistic predictions for profitability in over ten years in June. In fact, Russian firms were the most upbeat in their forecasts of the 12 countries for which comparable data are available.



Source: S&P Global PMI.



Source: S&P Global PMI. 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 8,000 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*. 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.

* The countries with manufacturing and service sector surveys are Brazil, China, France, Germany, India, Italy, Japan, Russia, Spain, the Republic of Ireland, the UK and the USA. Manufacturing data are collected for the Netherlands, Austria, Greece, Poland and the Czech Republic.

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