

News Release

Embargoed until 0600 UTC 05 July 2022

S&P Global Russia Services PMI[®]

Renewed rise in business activity as client demand strengthens in June

Key findings

Output expands amid fastest rise in new orders for a year

Slowest uptick in output charges since February 2021

Business confidence strengthens

Service sector firms in Russia registered a return to growth in business activity during June, according to the latest PMI[®] data. Output rose marginally, as new orders increased for the first time in nine months and at the fastest pace for a year. Client demand was supported by domestic customers, with new export orders continuing to contract. At the same time, output expectations regarding the year-ahead outlook strengthened to their highest since February. Companies continued to reduce their workforce numbers, albeit at a slower pace, amid a further fall in backlogs of work.

On the price front, input costs increased at a marked pace, as hikes in labour and imported material prices pushed up business expenses. That said, the rate of charge inflation softened notably to the slowest since February 2021.

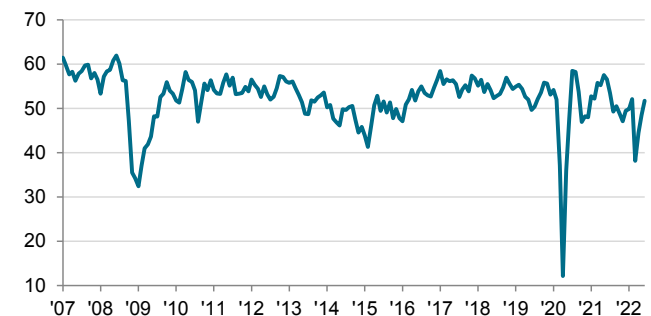
The seasonally adjusted S&P Global Russia Services PMI Business Activity Index registered 51.7 in June, up from 48.5 in May, to signal the first expansion in business activity across the Russian service sector for four months. The rate of growth was only marginal overall and below the series average, but the upturn was reportedly linked to greater client demand and a renewed rise in new business.

June data indicated the first increase in new orders at Russian service providers since September 2021. Firms often attributed the upturn to demand from new and existing domestic customers. The uptick in new business was solid overall and broadly in line with the series trend, albeit coming off a low base after a protracted downturn.

Demand conditions were weighed down by weak external sales, however. New export orders fell further at the end of the second quarter, albeit at a slightly softer pace. The rate of contraction was marked overall and among the sharpest on record, as firms stated that lower new business from abroad reflected the impact of sanctions on foreign client demand.

Meanwhile, Russian service sector firms registered a further substantial rise in input costs in June. Higher cost

S&P Global Russia Services Business Activity Index
sa, >50 = growth since previous month



Source: S&P Global.

Data were collected 13-28 June 2022.

burdens were linked to greater imported input prices, amid unfavourable exchange rate movements. Some companies also stated that hikes in labour costs to retain employees had pushed expenses up. Although among the steepest on record, the rate of cost inflation eased to the softest since February.

Less severe hikes in cost burdens and efforts to drive sales led firms to increase their selling prices at a slower pace midway through 2022. The rate of charge inflation eased notably from May and was the softest since February 2021.

A renewed upturn in new orders spurred greater optimism among Russian service providers in June. The degree of confidence in the outlook for output over the coming year ticked up to the strongest since February and signalled a marked turnaround from the pessimism seen in March and April. Hopes of further rises in new business and client demand underpinned positive sentiment, according to panellists.

Despite stronger optimism in the outlook, firms continued to cut their workforce numbers at the end of the second quarter. The fall in employment was only marginal, however, and attributed to voluntary leavers and difficulties retaining staff.

Nonetheless, service providers registered sufficient capacity to work through incoming new business, as backlogs of work were depleted again in June. The rate of contraction softened notably amid higher new orders, however, to the slowest in the current 17-month sequence of decline.

PMI[®]

by S&P Global

S&P Global Russia Composite PMI®

Slight upturn in private sector business activity in June

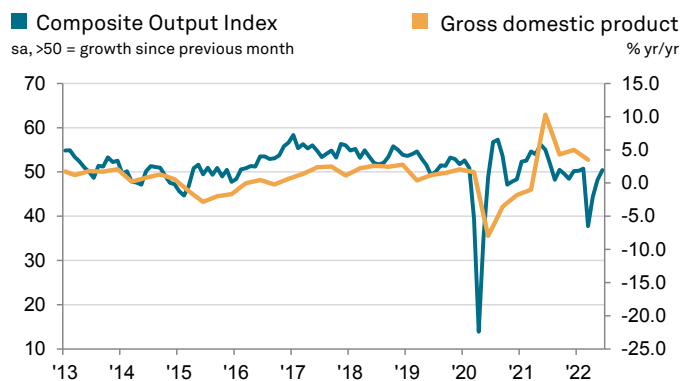
The S&P Global Russia Composite PMI Output Index* posted 50.4 in June, up from 48.2 in May. The latest index reading signalled a renewed rise in private sector output following three months of decline, driven by a marginal upturn in service sector business activity. Manufacturers, however, registered a quicker fall in production.

Client demand strengthened across the Russian private sector in June. Manufacturers and service providers recorded increased new orders, with total new sales rising at the sharpest pace since May 2021. That said, higher demand owed exclusively to the domestic market, as new export orders fell further.

In an effort to support demand, firms registered a slower rise in output charges. Moreover, manufacturers recorded a decrease in selling prices. At the same time, input costs increased at the slowest pace since September 2021.

Meanwhile, business confidence reached the highest since February, as private sector firms were buoyed by stronger client demand.

*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.

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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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