Renewed contraction in business activity amid slump in client demand in October

Key findings
Sharp drop in output as new orders fall
Cost pressures strengthen
Fastest fall in employment since May 2020

Russian service providers signalled a sharp contraction in business activity at the start of the fourth quarter, according to the latest PMI® data. The steep fall in output was largely driven by a renewed and solid decline in new business, as weak domestic and foreign client demand weighed on sales. In line with a drop in new orders and reduced pressure on capacity, firms reined in their hiring activity. The decrease in workforce numbers gathered pace and was the fastest since May 2020. Meanwhile, uncertainty regarding future demand dampened business confidence, which turned pessimistic.

On the price front, input costs rose at a faster pace amid hikes in supplier, utility and wage bills. That said, efforts to drive sales meant that output charges increased at the softest rate since February 2021.

The seasonally adjusted S&P Global Russia Services PMI® Business Activity Index registered 43.7 in October, down notably from 51.1 in September. The latest data signalled a sharp decline in business activity, and one that was the fastest since March. Panellists often stated that lower output was linked to weak client demand and a reduction in the size of their customer base following sanctions and a drop in purchasing power at clients.

Contributing to the reduction in business activity was a renewed fall in new orders during October. Russian service providers noted that the decrease was due to subdued demand conditions and lower purchasing power at customers. The fall in new business was the first since March and solid overall.

At the same time, new export orders continued to weigh on total new business. Foreign client demand contracted for the eighth successive month, albeit at a slightly softer pace. Where a decrease was reported, firms linked this to higher selling prices and logistics challenges following sanctions.

Russian service sector firms signalled that input cost inflation regained momentum at the start of the fourth quarter, with the pace of increase ticking up from September’s 12-month low. The rise in cost burdens was well above the series average. Anecdotal evidence suggested that hikes in wages, alongside greater supplier, material and utility bills pushed input prices up.

Despite a faster rise in cost burdens, Russian service providers reported a moderation in the pace of output charge inflation during October. The uptick in selling prices was the slowest since February 2021. Some firms attributed the ongoing increase in charges to the pass-through of greater costs to clients. That said, others stated that concessions to customers were made in an effort to boost new business.

Meanwhile, lower new orders and subdued client demand led to a quicker decline in employment across the Russian service sector. October data indicated the fastest rate of job shedding since May 2020. Companies noted that the drop in workforce numbers was partly linked to the non-replacement of voluntary leavers and layoffs.

Reduced pressure on capacity also fed through to lower levels of outstanding business. Backlogs of work fell at a solid pace, and for the third successive month.

Business expectations at Russian service providers weakened during October. Pessimism returned as firms expressed concerns regarding reduced purchasing power at clients and economic uncertainty. The level of sentiment was the lowest since March and signalled a notable turnaround from the upbeat expectations seen in September.
S&P Global Russia Composite PMI®

Strong decline in private sector output in October

The S&P Global Russia Composite PMI® Output Index* posted 45.8 in October, down from 51.5 in September, to signal a strong decline in private sector business activity. The downturn was largely driven by the service sector, as manufacturers registered a further rise in production.

Similarly, a contraction in service sector new business outweighed a marginal expansion in manufacturing new orders in October. That said, a decline in foreign client demand was broad-based.

On the price front, private sector firms recorded a faster increase in input costs in October, amid hikes in supplier prices. That said, weak demand conditions dampened upicks in output charges, as manufacturing firms left selling prices broadly unchanged on the month.

Alongside historically weak output expectations for the year-ahead, firms cut their workforce numbers at the fastest pace since May 2020. Firms often noted sufficient capacity as backlogs of work fell solidly.

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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*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.

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