

Embargoed until 0900 MSK (0600 UTC) 3 April 2020

IHS Markit Russia Services PMI®

Including IHS Markit Russia Composite PMI®

Activity contracts at sharpest pace since February 2009 amid coronavirus impact

Key findings

Marked downturns in new business and foreign client demand

Fastest fall in employment for over four years

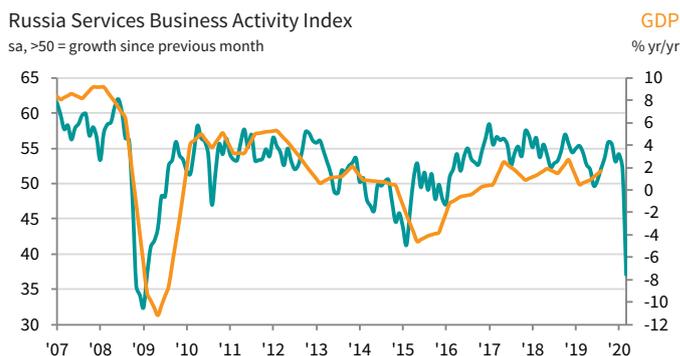
Business confidence drops to series low

Russian service sector firms registered a substantial decline in business activity in March, a notable turnaround from the moderate expansion recorded in February. The outbreak of the coronavirus disease 2019 (COVID-19) and emergency measures put in place to tackle the spread dented domestic and foreign client demand, with total sales contracting markedly. Subsequently, firms reduced workforce numbers amid greater spare capacity. Expectations also turned pessimistic, with firms uncertain of the length and severity of the economic damage from the COVID-19 outbreak.

At the same time, inflationary pressures strengthened as supplier shortages and a depreciation of the rouble drove input costs higher.

The seasonally adjusted IHS Markit Russia Services Business Activity Index registered 37.1 in March, down sharply from 52.0 midway through the first quarter. The decrease in output was the fastest for over 11 years and marked overall. Anecdotal evidence stated that the drop in business activity was linked to muted customer demand and business closures following the escalation of the COVID-19 pandemic.

Driving the decline in output was a sharp fall in new business during March. In line with the public health measures to halt the spread of COVID-19 across Russia and key export destinations, total sales dropped at the quickest pace since February 2009 as a number of customers closed their businesses.



Sources: IHS Markit, FSSS.

Furthermore, new export orders fell at the strongest rate since data collection for the series began in September 2014.

Lower business requirements following the reduction in new orders led to a strong contraction in employment during March. Job shedding was commonly attributed to an increased need to make redundancies. The rate of decline quickened to the fastest since January 2016.

Meanwhile, the drop in new business allowed firms to process backlogs of work. The reduction in incomplete business was sharp overall and the strongest since last July.

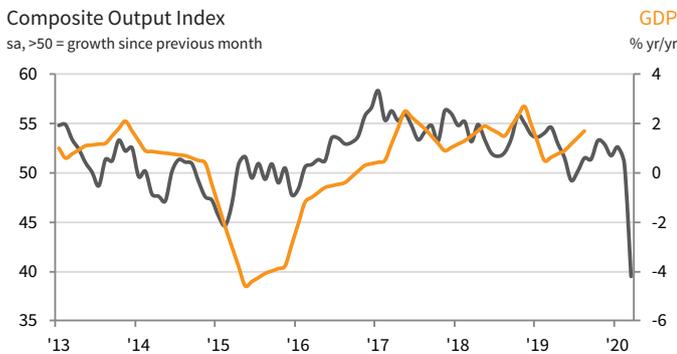
Uncertainty regarding the longevity of the outbreak of COVID-19, and how long it will take for demand to begin recovering, weighed heavy on service providers' output expectations at the end of the first quarter. Business confidence turned negative for the first time since early-2016 and was the lowest in the series history. Some firms also noted that customer closures dragged down sentiment.

At the same time, cost burdens faced by service sector firms increased at a strong pace. Supplier shortages following factory closures and transportation delays drove prices higher, as did a depreciation in the rouble exchange rate. The pace of input price inflation was the fastest since February 2019, shortly after the hike in VAT.

Despite weak demand conditions, firms were able to partly pass higher costs on to clients through greater selling prices.

IHS Markit Russia Composite PMI®

Marked contraction in private sector output amid COVID-19 outbreak



Sources: IHS Markit, FSSS.

Private sector business activity across Russia decreased in March amid contractions in the manufacturing and service sectors.

The IHS Markit Composite PMI Output Index* posted 39.5 at the end of the first quarter, down from 50.9 in February, and signalled a steep decline in overall output. The strength of the downturn was the greatest for over 11 years, as client demand waned following the escalation of the COVID-19 pandemic.

Total new business also decreased markedly, as both manufacturers and service providers registered steep declines in domestic and foreign client demand. The pace of contraction was the sharpest since February 2009, with service sector firms recording the faster fall in new orders.

Subsequently, private sector firms shed workers as lower business requirements led to excess capacity. The decline was steeper in the service sector, where employment and backlogs fell strongly.

Meanwhile, private sector business expectations turned negative in March as service providers foresee a decrease in output over the coming year, despite slight optimism at manufacturers.

Finally, inflationary pressures intensified as both input prices and output charges rose at marked paces.

*Composite indices are weighted averages of comparable manufacturing and services indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The Composite Output Index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index.

Comment

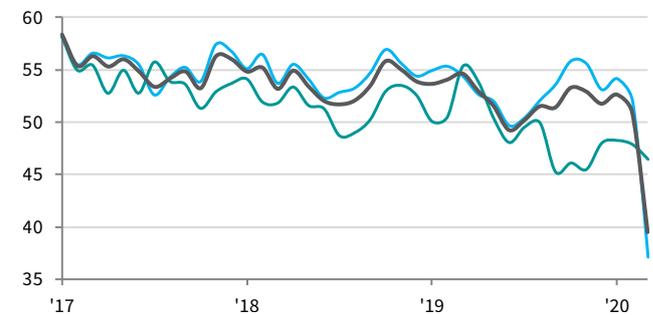
Commenting on the latest survey results, Siân Jones, Economist at IHS Markit, said:

"The Russian service sector was greatly impacted by the outbreak of COVID-19 in March, with marked contractions in activity and new business. Demand for Russian services fell at the fastest pace since the financial crisis as domestic and foreign customers reduced new order placements.

"At the composite level, private sector output fell at the quickest rate for over 11 years, with the first quarter ending on a negative note. Our current forecast signals broad stagnation across the Russian economy in 2020, with contractions expected in the middle quarters of the year.

"Meanwhile, inflationary pressures have accelerated, as the base effect from last January's VAT hike faded. The rate of inflation is forecast to quicken throughout 2020."

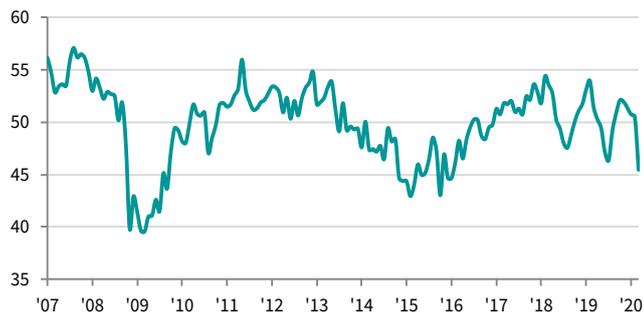
Output Index
Composite / Manufacturing / Services
sa, >50 = growth since previous month



Source: IHS Markit.

Services Employment Index

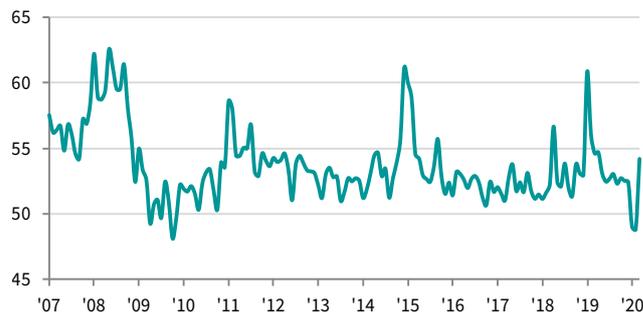
sa, >50 = growth since previous month



Source: IHS Markit.

Services Prices Charged Index

sa, >50 = inflation since previous month



Source: IHS Markit.

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Survey methodology

The IHS Markit Russia Services PMI® is compiled by IHS Markit 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.

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 services 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.

Survey dates and history

March data were collected 12-27 March 2020.

Survey data were first collected October 2001.

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