

News Release

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S&P Global Russia Services PMI[®]

Business activity subdued, as input cost inflation picks up in August

Key findings

Broadly unchanged levels of output despite greater new orders

Business expenses rise at fastest pace for three months

Renewed contraction in employment

Russian service providers reported broadly unchanged levels of business activity during August, according to the latest PMI[®] data. Overall stagnation in output came despite a further rise in new orders. The rate of growth in new business was the second-fastest since August 2020. Nonetheless, stronger demand was focussed on the domestic market, with new export orders for services falling sharply. Pressure on capacity was reduced, as firms signalled a decrease in backlogs of work. In response, and alongside efforts to cut costs, firms lowered their workforce numbers.

Operating expenses rose steeply, as input costs increased at the fastest rate for three months. Output charges were also raised at a historically elevated pace as firms sought to pass-through hikes in input prices.

The seasonally adjusted S&P Global Russia Services PMI Business Activity Index registered 49.9 in August, down from 54.7 in July and well below the series average. The latest data signalled broadly unchanged levels of output across the Russian service sector, thereby bringing to an end a two-month sequence of expansion. Where service providers reported a decrease in output, this was linked to reduced purchasing power at some customers and the impact of sanctions.

At the same time, new business increased at a steep pace in August. Service providers mentioned that the acquisition of new customers and diversification into new business lines aided growth in new orders. Although the pace of expansion eased from July, it was the second-fastest for two years.

Strong customer demand was centred on domestic clients, as new export orders contracted for the sixth month running midway through the third quarter. The decline in new business from abroad was solid overall, albeit the softest seen over the past six months, often linked to the impact of sanctions.

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



Source: S&P Global.

Data were collected 12-26 August 2022.

August data indicated higher input costs across the Russian service sector. The rise in operating expenses was driven by hikes in material, utility and wage bills. The rate of cost inflation quickened to the sharpest since May and remained historically elevated.

In contrast to the trend for input prices, firms raised their output charges at a softer pace midway through the third quarter. The rate of inflation in selling prices was the second-slowest in 2022 so far, despite firms often stating that the increase was due to the pass-through of higher costs to clients.

Meanwhile, Russian service providers recorded a renewed fall in workforce numbers during August, following a modest expansion in July. The decrease in employment, which was only marginal overall, was reportedly due to efforts to cut costs and lower business requirements.

Contributing to the fall in employment was a reduction in pressure on capacity in August. This was highlighted by a modest decrease in backlogs of work, which followed a solid upturn in July. The decline was attributed to sufficient capacity to work through new work.

Finally, business expectations dipped midway through the third quarter. Service providers remained upbeat, however, amid hopes of greater economic stability and an uptick in client demand. The degree of confidence slipped to the lowest in the current four-month sequence of positive sentiment as firms expressed concerns regarding purchasing power at customers.

PMI[®]

by S&P Global

S&P Global Russia Composite PMI®

Fractional increase in private sector business activity in August

The S&P Global Russia Composite PMI Output Index* posted 50.4 in August, down from 52.2 in July, to signal only a slight upturn in private sector business activity. Despite a renewed expansion in manufacturing production, broadly unchanged levels of output at service providers weighed on the overall expansion.

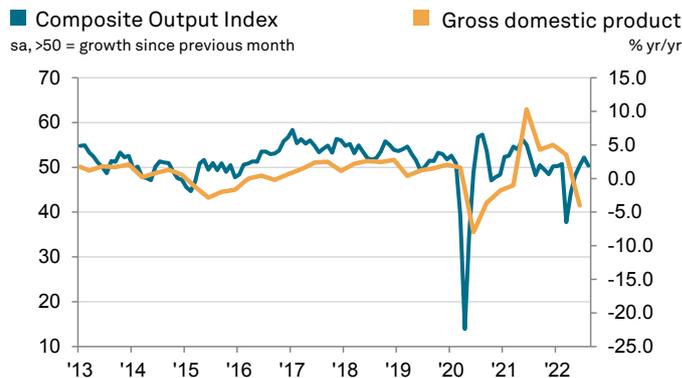
Domestic demand remained strong as total new orders rose further. That said, new export orders fell again, and at a sharper pace led by manufacturing firms.

On the price front, a quicker rise in service sector input costs drove a marked uptick in overall operating expenses. That said, output charges rose at a relatively soft rate in the context of the last two years of data, as firms sought to boost sales.

Private sector firms registered renewed contractions in employment and backlogs of work, as pressure on capacity waned.

Finally, business confidence softened to the lowest since April.

*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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