

News Release

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S&P Global Russia Business Outlook

Russian private sector business confidence slumps to series low in June

Key findings

Output expectations weakest on record

Employment forecasts drop to lowest since February 2016

Inflationary pressures set to ease over the coming year

Russian private sector firms registered subdued expectations regarding the outlook for output over the coming 12 months in June, according to the latest S&P Global Russia Business Outlook survey. The net balance of firms anticipating greater activity over the next year fell notably from +34% in February to just +5% in June. Forecasts were at their weakest in the series history, which stretches back to October 2009. The net balance of Russian companies expecting higher output was also much more downcast than the global average (net balance of +22%), with Russian firms the least upbeat of the 12 economies for which comparable data is available.

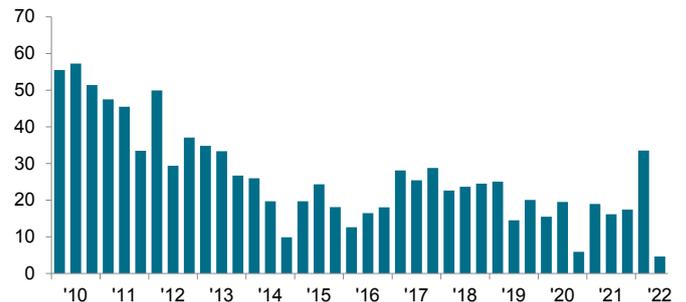
Where threats to growth were identified, these largely stemmed from higher raw material prices, the impact of sanctions on international demand, and a marked drop in purchasing power among domestic customers. Some companies also stated that, due to geopolitical tensions, sourcing inputs and raw materials had become more difficult with many European supplier contracts in particular terminated.

Nonetheless, opportunities for growth remained. Russian firms suggested that the exit of foreign-owned companies from the country had spurred import substitution opportunities and the prospect of gaining greater market share. Some companies also mentioned hopes that domestic economic conditions will stabilise.

At the sector level, optimism was driven by the more domestically-focused services economy, as manufacturing firms signalled pessimism regarding the outlook for output over the next year. Both sectors

Russia Business Activity expectations

% net balance



Source: S&P Global.
Data were collected 13-28 June 2022.

indicated marked turnarounds from relatively strong confidence seen in February, however.

Russian firms downgrade forecasts for hiring

June data signalled downbeat expectations regarding the hiring of additional staff over the next year at Russian firms. The net balance of companies anticipating greater employment declined from +15% in February to +3% in June, with manufacturers recording the first instance of negative sentiment regarding hiring since early-2009.

At the same time, the outlook for investment weakened as firms registered lower net balances for expected investment in research & development (R&D) and capital expenditure (capex). The net balance of companies expecting an increase R&D spending fell to the weakest since the series began in February 2019, with capex predictions the lowest for six years.

Price rises expected to wane

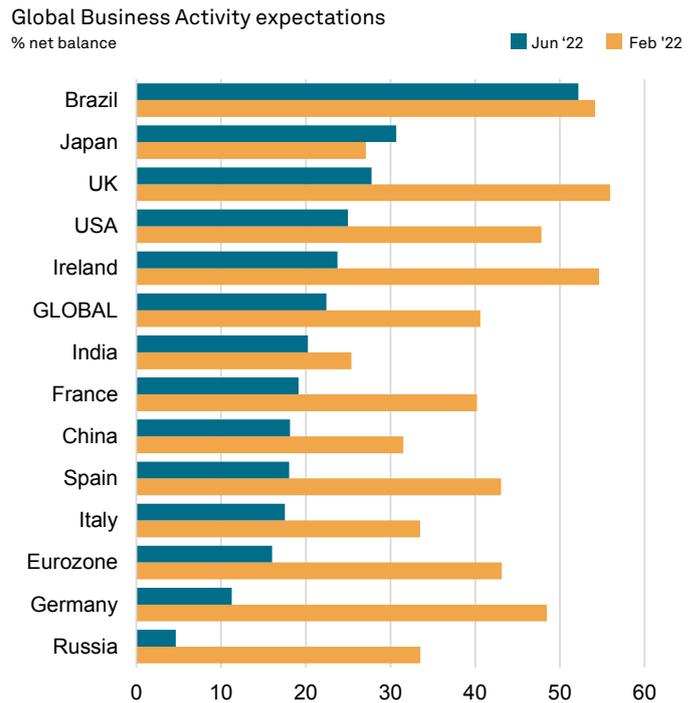
Russian firms foresee less robust inflationary pressures over the coming year than was the case in February, with expectations regarding non-staff costs softening particularly sharply. The net balance of firms anticipating higher non-staff costs decreased from +42% in February to +9% in June, with service providers less confident of an uptick than manufacturers.

Meanwhile, staff costs are predicted to rise further, with the net balance among the highest on record (since early-2019) despite falling from February's series peak. Expectations were largely driven by manufacturers, as the net balance of goods producers forecasting greater staff costs rose to a fresh series high.

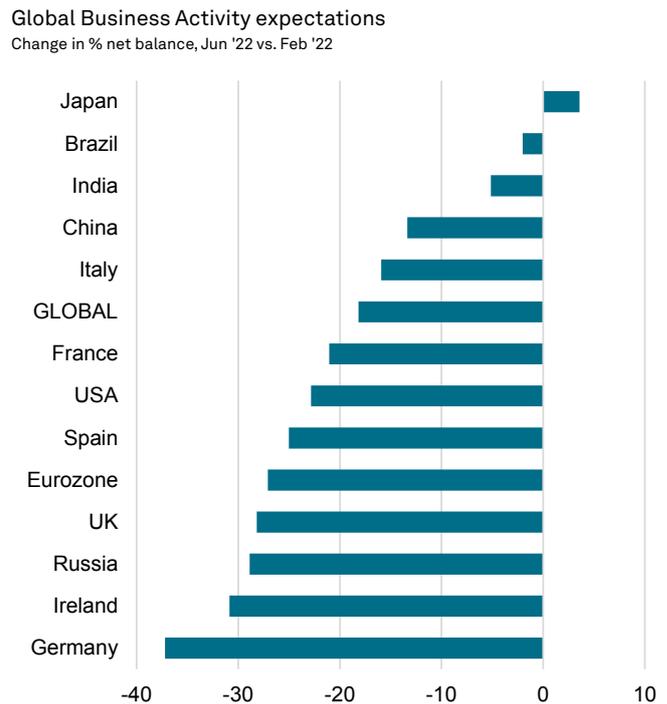
In line with weaker expectations regarding both output and costs, firms were less upbeat in their forecasts for selling prices over the coming year. Dropping from February's record high, the net balance of companies that foresee greater selling prices (+25%) was the lowest for a year.

Lower profit expectations recorded in June

Russian firms continued to anticipate higher profits over the coming year in June, albeit with forecasts weakening to their lowest since October 2020. At the sector level, there was a divergence in expectations between manufacturers and service providers, as the former registered pessimism and the lowest net balance on record (since early-2008).



Source: S&P Global.



Source: S&P Global.

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 12,000 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 in the countries mentioned above. 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.

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