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IHS Markit Russia Services PMI®

Including IHS Markit Russia Composite PMI®

Business activity contracts further, albeit only fractionally in January

Key findings

Slower fall in output as new business contraction eases

Employment declines at fastest pace since December 2020

Output charges rise at fastest pace since May 2021

Data were collected 12-27 January 2022.

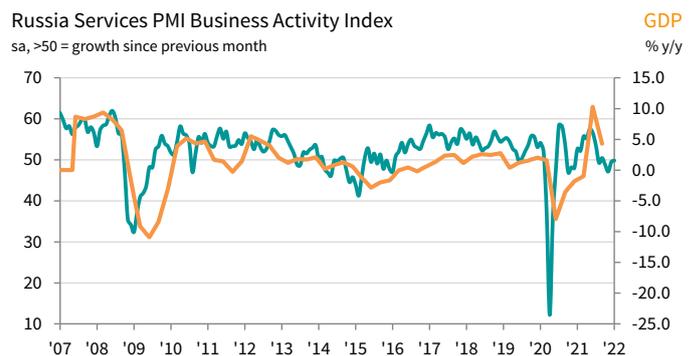
Russian service providers registered another decline in business activity at the start of the year, according to January PMI® data. The fall was only fractional, however, and eased to the slowest in the current four-month sequence of contraction. The softer decrease in output reflected a slower downturn in client demand, as new business fell at the softest pace for three months. Foreign sales fared less well, as new export orders declined at the sharpest pace since December 2020. Further weak demand conditions led to firms cutting workforce numbers at the quickest pace for 13 months, as backlogs fell again.

At the same time, inflationary pressures remained marked. Although the pace of cost inflation softened slightly, output charges rose at the fastest rate for eight months.

The seasonally adjusted IHS Markit Russia Services Business Activity Index registered 49.8 in January, up slightly from 49.5 in December. The rate of contraction was only fractional and the slowest since the current sequence of decline began last October. Where a decrease in business activity was reported, firms linked this to weak client demand and an associated reduction in new order inflows.

New orders decreased for the fourth consecutive month in January. The fall in new business was modest overall and linked to weak client demand. That said, the pace of contraction was the softest for three months.

Meanwhile, new export order fell solidly in January. The decrease in foreign client demand was the quickest since December 2020 and faster than the series average.



Sources: IHS Markit, FSSS.

January data indicated a further fall in employment across the Russian service sector. The decrease in workforce numbers was the third in the past four months, with the rate of job shedding quickening to the fastest since December 2020. Amid weak demand conditions, companies stated that the decline was due to the non-replacement of voluntary leavers.

Lower new orders allowed service providers to stay on top of their workloads, as the level of incomplete business decreased at a sharp pace. The decline in backlogs of work was the steepest since November 2020.

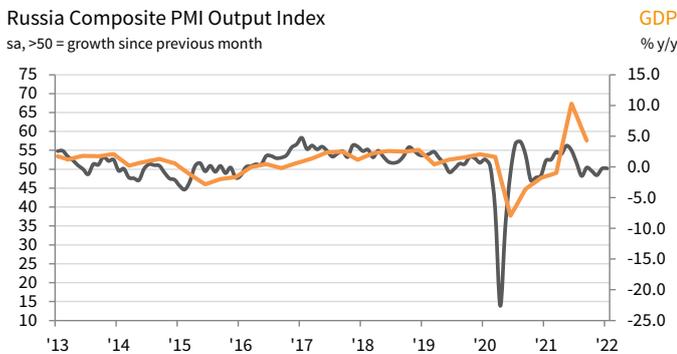
Meanwhile, business expectations picked up at the start of 2022. Service sector firms registered an improvement in confidence regarding the outlook for output over the coming year, up from a 14-month low in December. Firms were upbeat amid hopes of an uptick in client demand and planned investment. However, although solid overall, the degree of optimism was below the series trend.

Output charges increased substantially at the start of the year, as the pace of inflation accelerated to the fastest since May 2021. Companies widely noted that higher output prices were due to the pass-through of increased costs to clients where possible.

At the same time, cost burdens rose markedly in January. Anecdotal evidence suggested the increase in input prices was due to higher fuel, utility and supplier costs. The rate of cost inflation was broadly in line with December's recent high.

IHS Markit Russia Composite PMI®

Renewed rise in private sector business activity during September



Sources: IHS Markit, FSSS.

The IHS Markit Russia Composite PMI Output Index* posted 50.5 in September, up from 48.2 in August, to signal a renewed upturn in private sector output. The rate of expansion was only fractional, however.

Although manufacturers indicated broadly unchanged new business, the overall marginal pace of growth was supported by a faster rise in service sector client demand. New export orders, however, continued to decline.

Price pressures across the private sector remained historically elevated during September, as input costs rose at a steeper pace. In contrast, firms registered the slowest rise in output charges for eight months, owing to weaker factory gate price inflation.

Private sector firms continued to indicate a reduction in pressure on capacity at the end of the third quarter. Backlogs of work fell at a solid pace, albeit one that was the slowest since January. Subsequently, companies registered a fractional decline in employment. The fall in workforce numbers was centred on manufacturers, as service providers signalled a renewed round of job creation.

Finally, business confidence reached a three-month high in September, driven by stronger optimism at service providers.

*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

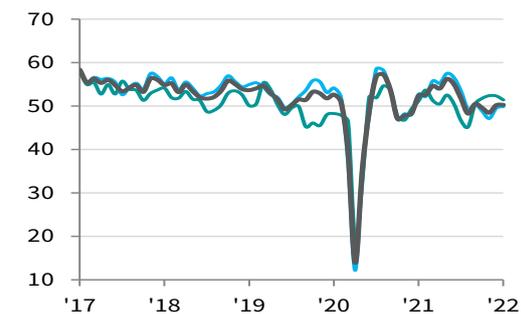
Commenting on the latest survey results, Siân Jones, Senior Economist at IHS Markit, said:

"Russian service sector firms registered another contraction in business activity at the start of 2022. That said, the declines in output and new orders eased. Foreign client demand, however, contracted at the fastest pace since December 2020.

"Weak demand conditions led to further cuts to employment amid reduced pressure on capacity.

"Price pressures continued to be troublesome, as higher utility and supplier costs were partially passed on to clients, and to a greater extent, despite subdued demand. Increases in private sector cost burdens remained substantial. Core and headline inflation are expected to stay well above the Bank of Russia's 4% target throughout the opening half of 2022. As upward risks to inflation remain abound, the central bank may need to take further action over the coming months to rein in price hikes."

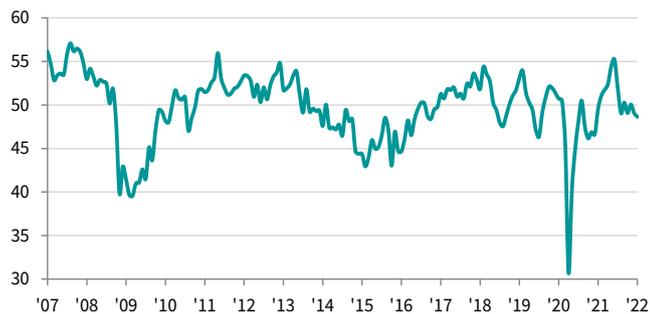
Russia PMI Output Index
Composite / Manufacturing / Services
sa, >50 = growth since previous month



Source: IHS Markit.

Russia Services PMI Employment Index

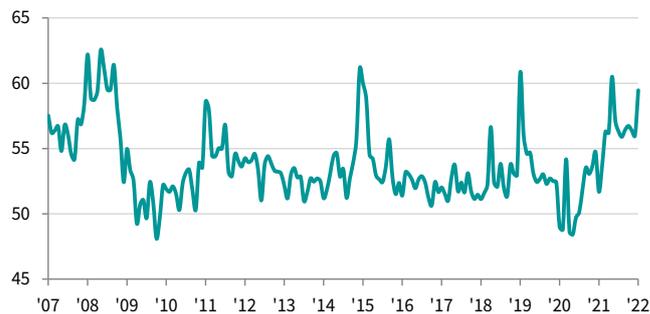
sa, >50 = growth since previous month



Source: IHS Markit.

Russia Services PMI 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

January data were collected 12-27 January 2022.

Survey data were first collected October 2001.

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