Further contraction in business activity across the Russian service sector in May

Key findings
Output and new business fall further, albeit at softer rates
Backlogs of work decline at sharpest pace since April 2020
Inflationary pressures ease

Service sector firms in Russia registered another monthly decline in business activity in May, according to the latest PMI® data. Although the rate of contraction eased to the slowest for three months, the fall in output reflected weak domestic and foreign demand conditions, with total inflows of new work and new export business decreasing sharply. In turn, firms cut their workforce numbers as the level of incomplete business declined at the fastest pace in over two years. Nonetheless, business confidence ticked higher following on from pessimism expressed in April, amid hopes of an improvement in domestic economic conditions over the coming year.

Although both input cost and output charge inflation remained at near-record highs, rates of increase softened to the slowest in three months.

The seasonally adjusted S&P Global Russia Services PMI Business Activity Index registered 48.5 in May, up from 44.5 in April. The latest index reading signalled a modest contraction in business activity across the Russian service sector that was the slowest since February. Still, firms once again noted weak client demand stemming from economic sanctions and the impact of inflation on customer spending.

At the same time, new business fell for the eighth month running midway through the second quarter. The fall in new orders was strong overall despite further easing from March’s low. Demand conditions were reportedly hit by squeezed purchasing power among customers following hikes in selling prices.

New export orders also fell further, and at a marked rate. Foreign client demand was again dented by logistics challenges and the end of contracts with key customers. Although slower than March’s recent low, the rate of contraction was among the fastest since data collection for the series began in September 2014.

Weak client demand and another monthly decrease in new business led to a substantial drop in backlogs of work at service sector firms during May. The level of outstanding business fell at the steepest rate in over two years, as companies stated that sufficient capacity allowed them to quickly process any incoming new work.

In response to the decline business requirements, Russian service providers cut their workforce numbers at a solid rate. The fall was the sixth in as many months, with some firms mentioning that skilled workers had left amid lower levels of new business.

Meanwhile, cost burdens continued to increase at a marked pace in May. The rate of input price inflation was among the steepest in over 20 years of data collection but eased to a three-month low. Nonetheless, firms attributed higher costs to greater fuel and imported input prices, as well as wage pressures.

Subsequently, output charges rose further midway through the second quarter, and at one of the sharpest rates on record. Panellists overwhelmingly stated that higher charges were due to hikes in supplier and input costs, which were passed through to clients. The pace of output charge inflation eased to the softest since February, however.

Finally, service sector firms were broadly upbeat regarding the outlook for output over the coming 12 months in May. Sentiment returned to positive territory amid hopes of an improvement in domestic economic conditions and greater client demand. The degree of confidence was below the series average, however.
Russian private sector output contracts further in May

The S&P Global Russia Composite PMI® Output Index posted 48.2 in May, up from 44.4 in April, to signal a further, albeit slower, decline in Russian private sector output. The fall reflected decreases at both manufacturing and service sector firms. That said, the rate of contraction eased to the slowest in the current three-month sequence of decline.

Driving the fall in output was another monthly decrease in new business. Both domestic and foreign client demand remained weak. New export orders fell at a sharper pace amid logistics challenges and a slump in international customer demand.

On the price front, inflationary pressures eased in May. Rates of increase in cost burdens and output charges softened despite reports of further hikes in supplier prices. The pace of output price inflation was broadly in line with that seen at the start of the year.

Despite a further reduction in employment and marked drop in backlogs of work, private sector firms were notably more upbeat in their expectations for output for the coming year.

*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.

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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About PMI
Purchasing Managers’ Index® (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business indicators of economic trends.

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