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Russia Service PMI Drops Sharply in October, Survey Shows

By The Moscow Times

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New business received by Russian companies fell for the second straight month.

Russia's service sector contracted in October at the fastest pace since May, as the slowing economy, suffering from Western sanctions over the Ukrainian crisis, led to a drop in the volume of new business, a survey showed Thursday.

The HSBC Purchasing Managers Index (PMI) for the service sector of Russia's $2 trillion economy fell to 47.4 last month from 50.5 in September, below the 50 mark that separates expansion from contraction.

The data for the sector, which accounts for about 60 percent of Russia's gross domestic product, follows a survey showing that the manufacturing segment of the economy kept losing steam last month, with demand for Russian exports falling and a weaker ruble driving firms' input prices sharply higher.

New business received by Russian companies fell for the second straight month, at the fastest rate since May of 2009. Firms reported weaker demand, including from international markets and a lack of funds at clients.

"We expect the service sector to continue to significantly underperform the manufacturing sector in the coming months: The former sector is more exposed to cooling consumer demand and cannot benefit much from import substitution in contrast to some industries," said Alexander Morozov, chief economist for Russia and CIS at HSBC.

Morozov reckons Russia's gross domestic product in the final quarter of the year is likely to deteriorate to negative 1 percent.

"We see a structural recession, in which a cyclical component is relatively small. This does not promise quick and easy ways out of it. ... So, tighten your belts, please."

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