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Fresh Data Shows Russian Economy Suffering Broad Slowdown

Business surveys show activity in both services and manufacturing is in decline.

By Ben Aris for bne IntelliNews

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Spending data from Sberbank shows outlays in restaurants and cafes is running at less than half of last year's levels. **Alexander Shcherbak / TASS**

The unexpected economic slowdown that started at the end of September delivered another surprise Thursday as IHS Markit reported a big drop in Russia's purchasing managers index (PMI) reading for services — tumbling from 53.7 to 46.9 in October.

That marks the biggest single-month fall since the first wave of the pandemic was at its peak in Russia in May, IHS Markit said in a statement.

The PMI is a highly-watched economic indicator, with any readings under the 50-mark representing a contraction of business activity, while those above 50 signifying growth.

The services result follows disappointing results in Russia's manufacturing PMI which also slid deeper into contraction, from 48.9 in September to 46.9 in October.

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Taken together, the composite PMI went back into the red, posting 47.1 in October — reversing the expansion of 53.7 reported in September.

"The October PMI data signalled a renewed contraction in business activity across the Russian service sector," IHS Markit said. "The decline was driven by weaker demand conditions, as a resurgence in coronavirus cases and restrictions weighed on new sales."

The number of daily new infections in Russia has soared and is approaching 20,000 per day as of the first week of November — almost double the infection rate in spring when the first lockdown was imposed.

Despite the increasing risks to public health, the Kremlin is worried about the economic damage done by the first lockdown and has chosen not to impose a second lockdown, instead the government has told those over the age of 65 to stay home, and rules on wearing masks and gloves are now being stringently enforced.

"October data indicated the first contraction in new service business since June. The solid decline in new orders was much slower than April's nadir, but marked a notable contrast to expansion seen in September. Panellists often stated that greater restrictions linked to efforts to stem the spread of Covid-19 weighed on client demand and stymied new sales," IHS Markit said.

The slowdown is also weighing on employment as companies continue to cut their workforce to match the falling orders. Unemployment was at record post-Soviet lows of 4.3-4.5% for most of 2019, but rose to 6.4% in August and will be maintained at these levels for the foreseeable future, experts say. IHS Markit found firms cut back their workforce numbers in October at the fastest pace since June.

Businesses also reported costs were going up, partly due to the dramatic weakening of the ruble, which broke through 80 against the dollar in recent weeks, but has since strengthened slightly.

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