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Russia's Economy Defies Wave of Bankruptcy Fears With Fastest Private Sector PMI Growth in a Year

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The central square of the office block on Moscow's Bumazhny Proezd. **Moskva News Agency**

Russia's services and manufacturing sectors expanded at their fastest pace in a year in January, driven by improved demand conditions and a sharp rise in new orders, according to the latest Purchasing Managers' Index (PMI) data from S&P Global.

However, rising input costs and supply chain pressures weighed on business margins.

The seasonally adjusted S&P Global Russia Services PMI Business Activity Index rose to 54.6 in January, up from 51.2 in December, marking the strongest expansion in output in a year. The upturn was linked to "a sustained rise in new orders and more favorable demand conditions," according to S&P Global.

The services sector's performance was mirrored by Russia's manufacturing industry, where the PMI increased to 53.1 in January from 50.8 the previous month, just above the 50 no-

change benchmark.

S&P Global's report described the improvement as "significant overall," noting that "the growth rate was the fastest since July 2024 and above average."

Taken together, the S&P Global Russia Composite PMI Output Index, which tracks both services and manufacturing, climbed to 54.7 in January from 51.1 in December. The overall expansion was the sharpest in a year, underpinned by "a faster rise in new orders" and "solid growth in private sector output."

The strong January results come as a surprise in the context of assessments that Russia's economy is cooling and many pundits have been predicting a wave of bankruptcies that could begin in the second quarter of this year.

However, other pundits have argued that Russia's economy is a lot more robust than it first appears, despite sky high interest rates and very sticky high inflation rates.

New business at service providers increased for the seventh consecutive month, with growth accelerating to its fastest pace in a year, reports S&P Global's panelists. Companies attributed the rise to "a general improvement in demand conditions," as well as a diversification of service lines.

The upturn in activity encouraged firms to increase staffing levels, with job creation recorded for a third successive month. However, employment growth was only marginal overall, as firms struggled with mounting backlogs of work. "The level of incomplete business rose at a solid pace," S&P Global reported, citing ongoing pressure on capacity due to a strong influx of new orders.

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High inflation remains a problem, despite the Central Bank's efforts to cool price growth using non-monetary policy methods. However, the regulator reported some successes in reducing borrowing, a major source of inflation in its January banking update. Tighter macroprudential restrictions have led to the first fall in consumer borrowing — mainly credit cards — where retail creditors paid off more loans than they took out in January for the first time in a year.

Likewise, corporate borrowing fell by almost one-third (31%) in December, which is expected to reduce inflationary pressures as well. Mortgage lending also went down sharply after the sector was rocked by the end of a generous subsidy scheme last summer.

Nevertheless, despite robust demand, cost pressures continue to intensify in the service sector. Input prices rose at the fastest rate in a year, driven by higher supplier and transportation costs, as well as increased wage bills, according to surveyed firms.

Companies responded by passing higher costs on to customers, with selling prices rising at the joint-fastest pace in a year, alongside July 2024. "Firms commonly noted the pass-through of higher costs to customers," the report stated.

However, managers remain optimistic on the outlook for this year, which is expected to be the toughest since the war in Ukraine began three years ago. Service providers reported the highest level of confidence since September, buoyed by expectations of stronger demand conditions and planned investments in new service lines and advertising, reports S&P Global.

Businesses continued to navigate inflationary pressures, with firms in both sectors raising prices to protect profit margins. "Selling prices increased at the sharpest rate since November 2023," S&P Global said.

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