

Russia Service Sector Shrinkage Heralds Imminent Recession

By [The Moscow Times](#)

April 03, 2014

The  **Moscow Times**

Russia's service sector shrank in March at the fastest rate in 43 months, the HSBC purchasing managers index showed on Thursday, pointing to an imminent recession in the economy.

The headline index fell to 47.7 in March from 50.8 in February, back below the 50 mark that separates expansion from contraction. It was the lowest reading since August 2010, when business activity was disrupted by a heatwave.

Economists and government officials have said the international crisis over Ukraine is having a serious impact on investor confidence, leading to heavy capital outflows and falling investment in Russia.

Alexander Morozov, chief economist for Russia and the CIS at HSBC, said the economy must have contracted in seasonally adjusted terms in the first quarter, as both services and manufacturing had seen marked contractions in March.

He said the economy was likely to enter a technical recession in the second quarter, meaning two consecutive quarters of falling gross domestic product.

"The economy keeps going in the wrong direction in contrast to the global economy," Morozov said.

Services account for about 60 percent of Russia's economy, including public services not covered by the survey.

Services firms' business expectations were the most negative since December 2008, the height of the global financial crisis. Only 34 percent of firms expected business to expand in the next 12 months, with 28 percent expecting output to decline, the survey showed.

Respondents cited unstable economic and political conditions and the weak ruble as reasons for low business confidence.

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