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IHS MARKIT RUSSIA MANUFACTURING PMI®

Output expands for the first time since May 2019 as COVID-19 restrictions loosen

KEY FINDINGS

Renewed rise in production and new orders

Employment continues to fall amid historically weak demand

Inflationary pressures soften

Data were collected 12-24 June 2020.

Latest PMI® survey data indicated only a fractional deterioration in operating conditions across the Russian manufacturing sector, as output and new orders returned to growth in June. The renewed increase in client demand was only fractional, however, as customers gradually resumed operations following the coronavirus disease 2019 (COVID-19) outbreak. Manufacturers registered a softer decline in employment, but continued to note redundancies due to subdued activity. Nonetheless, business confidence picked up amid hopes of greater client demand.

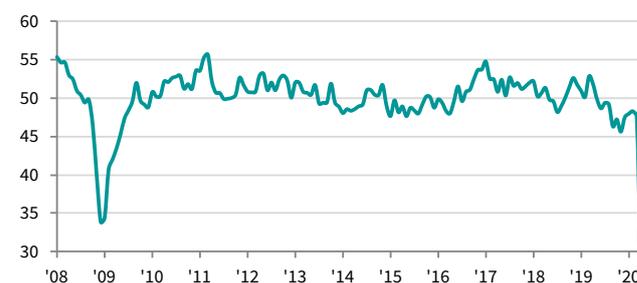
Meanwhile, price pressures softened as bottlenecks in supply chains were loosened and supplier stocks were rebuilt.

The headline seasonally adjusted IHS Markit Russia Manufacturing PMI® registered 49.4 at the end of the second quarter, up significantly from 36.2 in May. The latest figure signalled only a fractional decline in manufacturing sector performance, and one that was the slowest since May 2019.

Supporting the softer overall contraction was a renewed expansion in production in June. Although only moderate, the rate of growth was the sharpest since April 2019 as factories reopened and firms returned to work. A number of firms stated that higher output was due to the processing of orders made before the pandemic escalated, while some highlighted increased client requests.

New orders rose only fractionally in June, but nonetheless signalled a marked turnaround from the substantial contraction seen in May. The upturn in client demand was linked to the reopening of customer businesses. In contrast, new business from abroad continued to fall at the end of the second quarter.

Manufacturing PMI
sa, >50 = improvement since previous month



Source: IHS Markit

The downturn in new export orders was sharp overall despite the rate of decline having eased to the softest in three months.

Despite growth in new orders, manufacturers continued to cut workforce numbers at the end of the second quarter amid signs of spare capacity and historically muted demand. Companies highlighted that redundancies and the non-replacement of employees were behind the solid fall. At the same time, backlogs of work were reduced further.

On the price front, input costs rose at a strong rate in June. The increase in cost burdens eased from April's recent high, however, as suppliers rebuilt stocks and some travel restrictions were lifted. Nevertheless, greater input prices continued to be partially passed on to clients through higher selling prices. The rate of charge inflation softened to a marginal pace, as firms discounted to retain clients and boost sales further.

In line with signs of renewed demand, manufacturers registered the strongest degree of optimism for five months. Hopes of further client requests and new customer acquisitions drove positive sentiment.

Finally, the contraction in input buying eased in June, as some firms noted an uptick in purchasing following the reopening of many factories. Both pre- and post-production inventories were depleted further as companies used stocks to fulfill new orders and backlogs of work.

COMMENT

Siân Jones, Economist at IHS Markit, which compiles the Russia Manufacturing PMI survey, commented:

"The Russian manufacturing sector showed signs of a return to operations following the COVID-19 pandemic in June, as output and new orders rose for the first time in over a year. The upturns were largely due to the reopening of factories and customers, with some processing orders made before the escalation of the virus outbreak.

"Nonetheless, historically muted demand conditions and efforts to cut costs drove firms to shed workers. Although the pace of cost inflation eased slightly, competition and efforts to retain clients meant increases in output charges also slowed.

"Manufacturers showed renewed optimism towards the outlook for output over the coming year amid hopes that the worst is now behind them. Nonetheless, our current forecast signals a 7% decline in Russian industrial production on the year is expected in 2020 as challenging external demand conditions continue to weigh on new orders."

Input Prices Index

sa, >50 = inflation since previous month



Source: IHS Markit

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The IHS Markit Russia Manufacturing PMI® is compiled by IHS Markit from responses to questionnaires sent to purchasing managers in a panel of around 250 manufacturers. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP.

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 Purchasing Managers' Index® (PMI). The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers' Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers' Delivery Times Index is inverted so that it moves in a comparable direction to the other indices.

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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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 surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends.

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