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IHS MARKIT RUSSIA MANUFACTURING PMI®

Fractional deterioration in operating conditions as 2020 draws to a close

KEY FINDINGS

Slower contractions in output and new orders

Rate of input price inflation soars to fastest since January 2015

Supply chain disruption escalates

Data were collected 04-17 December 2020.

December PMI® data signalled a further, albeit only fractional, decline in the health of the Russian manufacturing sector. As well as slower contractions in production and new orders, the headline figure was pushed higher by substantial supply chain disruption. The deterioration in vendor performance led to an accelerated and robust rate of input price inflation.

The rate of job shedding also eased at the end of 2020, as output expectations strengthened amid hopes of greater client demand over the coming year.

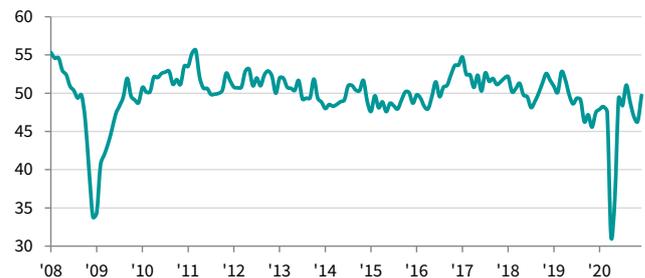
The headline seasonally adjusted IHS Markit Russia Manufacturing PMI® registered 49.7 in December, up from 46.3 in November and signalled the slowest deterioration in operating conditions across the Russian manufacturing sector in the current four-month sequence of decline. The overall contraction was only fractional overall, but the higher headline reading partially stemmed from supplier hold ups.

Output continued to decline across the Russian goods-producing sector in December, as subdued client demand weighed further on production. That said, the pace of the downturn softened and was the slowest in the current three-month sequence of contraction.

New business also fell further in the final month of 2020, albeit at a notably softer pace. The rate of decline was only fractional overall, but panellists also suggested that strong competition hampered efforts to attract new clients. Domestic demand reportedly dragged on new sales as new export orders rose for the third month running. Although the pace of expansion in export order book volumes slowed, it was nonetheless above the series average.

Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit

Meanwhile, the rate of input price inflation accelerated once again, and was the quickest for almost six years. Higher cost burdens were often attributed to supplier shortages and unfavourable exchange rate movements.

Firms reacted to the significant rise in costs by partially passing these on to clients through greater selling prices. The increase in charges was the sharpest since March 2015 and marked overall.

Supply chain disruptions intensified in December, as vendor shortages were met with transportation delays. Lead times lengthened to the greatest extent since May.

At the same time, a slower fall in new orders was met by a softer decline in workforce numbers at Russian manufacturing firms in the final month of 2020. Employment fell only moderately, and at the least marked pace since August. The rate of depletion in backlogs of work also eased to a solid pace.

In line with another monthly decline in new orders, however, purchasing activity and stocks of both raw materials and semi-finished items decreased. That said, efforts to safeguard against supply disruptions led to the slowest fall in pre-production inventories since August 2019. Stocks of finished goods, however, were reduced at a sharper rate as firms sold from current inventories.

Finally, output expectations strengthened in December amid hopes of the release of pent-up demand as 2021 progresses. The degree of confidence was at its highest since August and was relatively strong.

COMMENT

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

"The Russian manufacturing sector showed encouraging signs of moving towards stabilisation in December, as the declines in output and new orders softened. Tougher global demand conditions following increasing national lockdowns were reflected in slower new export order growth, however.

"A more pressing concern was the escalation in supply chain disruption during December. Supplier shortages and delays resulted in robust cost inflation, the rate of which has not been seen for almost six years. Although firms partially passed on higher input prices, the pace of charge inflation was far surpassed by the increase in costs.

"Despite such marked rises in prices, the annual rate of inflation is expected to remain below the Central Bank of Russia's target of 4%, owing largely to weak domestic demand conditions."

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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