Further manufacturing deterioration amid challenging demand conditions

KEY FINDINGS

PMI remains below 50.0 neutral mark amid ongoing COVID-19 crisis

Output increases marginally for second month running

Rate of input price inflation accelerates

Latest PMI® survey data indicated a quicker overall decline in the performance of the Russian manufacturing sector. Although the deterioration was much less severe than that seen in April, it signalled a step backwards for goods producers, as demand conditions faltered.

The reopening of factories following the coronavirus disease 2019 (COVID-19) outbreak pushed output higher once again. However, weak new order inflows halted employment, as firms lowered their workforce numbers following evidence of spare capacity. Some firms were buoyed by a recent pick-up in production schedules, as signalled by an improvement in output expectations to a six-month high. Meanwhile, inflationary pressures intensified as input costs rose markedly.

The headline seasonally adjusted IHS Markit Russia Manufacturing PMI® registered 48.4 at the start of the third quarter, down from 49.4 in June. The latest data signalled a marginal deterioration in operating conditions across the Russian manufacturing sector, and one that was stronger than that seen in June.

Although the sector’s overall performance declined, output remained in expansion territory in July. Russian goods producers registered a marginal increase in production as firms continued to state that the resumption of operations following virus-related lockdown measures had aided output. Moreover, the rate of growth was the second-fastest since April 2019.

Demand conditions remained weak, however, as companies noted that uncertainty surrounding the pandemic led to client hesitancy in placing orders. The renewed fall in sales inflows followed a fractional expansion in June. New export orders continued to contract in July, albeit at the slowest pace since May 2019. The decrease was only slight as global economies began to reopen.

Meanwhile, the rate of input price inflation accelerated in July, as shortages of raw materials and unfavourable exchange rate movements pushed imported costs higher. The pace of increase was marked overall and the second-fastest since March 2019. Firms were conscious not to dissuade clients from making purchases during challenging demand conditions, however, with selling prices rising only marginally.

Reflecting weak demand conditions, manufacturers cut their workforce numbers further in July. Evidence of spare capacity and a drop in new order inflows led to redundancies and the non-replacement of voluntary leavers, amid efforts to reduce cost burdens.

At the same time, companies continued to lower their input buying at the start of the third quarter. Firms reportedly sold from stock due to weak sales and utilised raw material inventories to fulfill production requirements. Some also stated that longer lead times for inputs had partially driven the depletion of pre-production inventories.

Russian goods producers remained upbeat regarding the outlook for output over the coming year, despite signs of weak customer demand. The degree of confidence picked up to a six-month high amid reports of investment in product development and hopes of a return to pre-pandemic output levels over the long term.
COMMENT

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

“The Russian manufacturing sector took a step back in July, as new orders struggled to maintain momentum. Although output expanded, manufacturing sales fell back into contraction territory amid challenging demand conditions and hesitancy among clients.

“Efforts to cut costs led to a further reduction in employment. Manufacturers noted a marked rise in input prices, as raw material shortages pushed cost burdens higher. That said, selling price rose only marginally amid efforts to attract new clients.

“While it is encouraging to see confidence improving among goods producers, our latest forecast is a 6.4% annual contraction in industrial production in 2020 and a slow recovery in output to pre-pandemic levels.”

About PMI

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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