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IHS MARKIT RUSSIA MANUFACTURING PMI®

May PMI signals first contraction in operating conditions since August 2018

KEY FINDINGS

PMI posts fractionally below 50.0 neutral mark

Rates of output and new order growth soften

Employment falls at fastest pace since March 2016

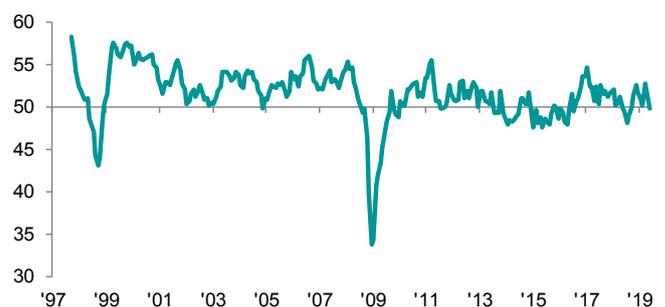
The latest survey data signalled the first deterioration in the health of the Russian manufacturing sector since August 2018 in May. The contraction was driven by a faster decline in employment and softer expansions in output and new orders. New business growth eased further from March's recent high, as new export orders fell for the fourth time in the last five months. Meanwhile, inflationary pressures softened further from January's VAT driven spikes. Manufacturers remained robustly optimistic in May, with positive expectations stemming from investment in machinery.

The seasonally adjusted IHS Markit Russia Manufacturing Purchasing Managers' Index™ (PMI®) – a composite single-figure snapshot of the performance of the manufacturing economy – registered 49.8 in May, down from 51.8 in April. The latest headline PMI signalled the first deterioration in operating conditions for nine months. That said, the overall contraction was only fractional overall.

Production across the Russian manufacturing sector increased only fractionally in May. The rate of expansion softened notably from March's recent peak and was below the series trend. While more efficient production processes helped stimulate growth, subdued demand acted as a hindrance.

At the same time, new business growth eased to a marginal rate in May. The pace of expansion moderated from that seen in April, with many suggesting softer demand conditions were behind the slowdown. New export orders, meanwhile, fell at a marginal rate in May. Panellists stated that reduced

Manufacturing PMI
sa, >50 = improvement since previous month



competitiveness drove the latest contraction.

Subsequently, firms reduced their workforce numbers for the second successive month. The decrease in employment was solid and the fastest since March 2016. Anecdotal evidence attributed the latest decline in staffing levels to softer demand conditions and the non-replacement of voluntary leavers. Reports of more efficient production processes also allowed firms to continue to clear backlogs at a strong rate, as pressure on capacity was reduced.

Average cost burdens continued to rise in May, albeit at the softest pace since August 2017. The rate of inflation eased notably from those seen at the start of the year, but was solid overall. Where an increase was reported, panellists linked this to higher supplier prices.

Consequently, firms partly passed greater cost burdens on to clients through a rise in factory gate charges. That said, the pace of increase was the softest for 14 months.

Meanwhile, purchasing activity was broadly unchanged as goods producers signalled another monthly fall in input inventories.

Manufacturers registered further robust expectations for output over the coming 12 months in May. The degree of confidence stemmed from investment in new technology and hopes of a continued rise in new orders.

COMMENT

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

"The Russian manufacturing sector showed signs of a slowdown in May, as the PMI dipped below the 50.0 neutral mark for the first time since last August. The decline was only fractional, but driven by slower growth in output and new orders, and a faster fall in employment. IHS Markit currently forecast a softer expansion in industrial production in the second quarter of 2019, with growth slowing to 1.5% year-on-year.

"Inflationary pressures eased further from January's recent record. Although input costs increased solidly, factory gate charges rose at the slowest rate since March 2018 amid softer demand conditions and greater competition.

"Nevertheless, goods producers remained strongly optimistic of a rise in output over the coming year."

Input Prices Index

sa, >50 = inflation since previous month



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Methodology

The IHS Markit Russia Manufacturing PMI® is compiled by IHS Markit from responses to questionnaires sent to purchasing managers in a panel of around 300 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.

May 2019 data were collected 13-24 May 2019.

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. To learn more go to [ihsmarkit.com/products/pmi.html](https://www.ihsmarkit.com/products/pmi.html).