

Embargoed until 0900 Moscow (0600 UTC) 1 February 2019

IHS MARKIT RUSSIA MANUFACTURING PMI®

Softer rise in output weighs on PMI in January

KEY FINDINGS

Rate of production growth eases notably

New order upturn remains solid, however

Higher rate of VAT intensifies price pressures

January data signalled a marginal improvement in the health of the Russian manufacturing sector. The headline figure dipped below the series trend as output and new orders increased at weaker rates. Weighing further on the overall performance of the sector was a contraction in employment, the first monthly fall in staffing numbers since August 2018. Nevertheless, the rise in new business was solid overall and survey respondents remained strongly optimistic towards the outlook for output over the coming year.

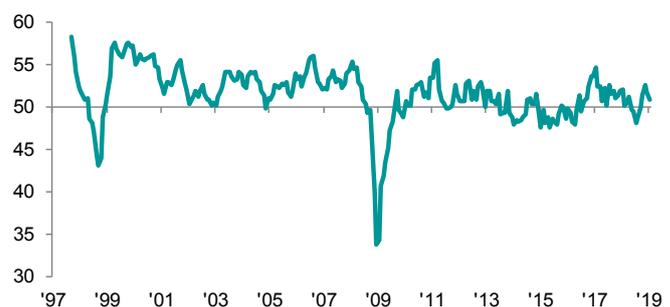
The recent hike in VAT led to accelerated rates of both input cost and output charge inflation, with the latter quickening to the fastest since September 2015 as firms sought to partly pass on higher costs.

The seasonally adjusted IHS Markit Russia Manufacturing Purchasing Managers' Index™ (PMI®) – a composite single-figure snapshot of the performance of the manufacturing economy – registered 50.9 in January, down from 51.7 in December and indicating only a marginal improvement in operating conditions across the Russian goods-producing sector. The headline figure eased for the second successive month and was the lowest since last September.

Output increased at only a fractional rate in January and at the slowest pace in the current five-month sequence of expansion. The pace of increase was well below the series trend despite a further rise in new business.

Greater client demand and the introduction of new products to the markets were often linked by survey respondents to the latest rise in new orders. The strength of the upturn was

Manufacturing PMI
sa, >50 = improvement since previous month



solid overall and one of the strongest in the last year despite easing to a three-month low. New export orders, however, fell for the first time since July 2018 in January.

Meanwhile, the recent increase in VAT was commonly linked to a rise in input prices. Larger cost burdens were also attributed to greater transportation and metal prices as input cost inflation accelerated to a four-month high. The marked pace of increase was partly passed on to clients through a sharp rise in output prices. Furthermore, the rate of charge inflation was the quickest since September 2015.

In line with a slower rise in production, firms reduced their workforce numbers in January for the first time since last August. The fall was only modest but helped to alleviate pressure on capacity, which was further highlighted by a decline in backlogs of work.

Manufacturers registered destocking of both inputs and finished goods in January. Firms also registered the first decrease in input buying since last September.

Finally, business confidence towards the year ahead was historically marked in January. Panellists suggested optimism stemmed from new product development and investment in modern technology.

COMMENT

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

"The Russian manufacturing sector shifted down a gear in January, with goods producers posting only a marginal overall improvement in the sector. A softer rise in production weighed on the sector's performance.

"Heavy on panellists' minds was the recently introduced hike in VAT. Subsequent quicker rises in input costs and output charges were highlighted, as firms sought to pass on higher operational costs.

"Meanwhile, firms lowered their workforce numbers for the first time since August 2018 following weaker output growth. A number of manufacturers, however, noted that the fall in employment was also linked to efficiency gains."

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.

January 2019 data were collected 11-25 January 2019.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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