News Release

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IHS MARKIT
RUSSIA MANUFACTURING PMI®

COVID-19 impact leads to unprecedented declines in output and new orders

KEY FINDINGS

Fastest contractions in production and total sales since September 1997

Inflationary pressures intensify

Output expectations slump to series low

Latest PMI® survey data signalled a substantial contraction in production across the Russia manufacturing sector, as emergency public health measures to halt the spread of the coronavirus disease 2019 (COVID-19) led to factory closures and a marked reduction in client demand. Although firms remained optimistic of an increase in output over the coming year, expectations dropped to a series low (since April 2012) and workforce numbers were reduced steeply.

Meanwhile, inflationary pressures intensified as supplier shortages and an unfavourable exchange rates pushed the price of imported inputs up.

The headline seasonally adjusted IHS Markit Russia Manufacturing PMI® posted 31.3 in April, down notably from 47.5 in March, and signalled the greater deterioration in operating conditions across the Russian manufacturing sector since data collection for the survey began in September 1997.

The drop in the headline figure was driven by a faster downturn in production across the Russian manufacturing sector in April. The rate of contraction was the strongest since data collection began in September 1997, as COVID-19-related factory closures and lockdowns weighed on client demand.

Concurrently, new orders fell at an unprecedented pace at the start of the second quarter. The decline in total sales was largely driven by challenging domestic and foreign demand conditions following the escalation of the virus outbreak across Europe. New export orders contracted at a record rate, with a number of firms stating that clients had cancelled or postponed orders since emergency public health measures were put in place.

Meanwhile, a depreciation of the ruble pushed imported input prices higher in April. Unfavourable exchange rates were partially behind the sharp increase in cost burdens during the month, with the pace of inflation accelerating to the fastest since the hike in VAT in January 2019. Nonetheless, firms passed part of the rise in input prices to their clients through a strong increase in output charges.

Manufacturers registered a decrease in the degree of optimism towards the outlook for output over the coming 12 months. Although still expecting a rise in production, firms were their least confident since the series began in April 2012. Key concerns for companies were the length of lockdowns and how quickly the economy will recover once emergency measures are lifted.

In line with a marked drop in client demand, firms cut their workforce numbers at the quickest rate since January 2009. The decrease in employment was a stark turnaround from the broadly unchanged levels seen in March.

At the same time, backlogs of work fell at the strongest pace since December 2008, thereby expanding spare capacity further. Despite a sharp reduction in purchasing activity across the Russian manufacturing sector, vendor performance continued to deteriorate, and to the greatest extent since data collection began in September 1997. Longer lead times stemmed from logistical issues following the outbreak of COVID-19 and supplier shortages.
COMMENT

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

"Already-difficult demand conditions across the Russia manufacturing sector were further exacerbated by factory closures and lockdowns following the escalation of the outbreak of COVID-19. Output and new orders contracted at unprecedented rates as domestic and foreign client demand slumped.

"Of concern was a sharp uptick in input prices, with the rate of inflation at the fastest since the hike in VAT in early-2019. A depreciation of the rouble and supplier shortages drove costs higher, with some firms still partly able to pass costs on to clients.

"We expect industrial production in Russia to decline 3.8% in 2020, as the impact of the COVID-19 outbreak takes hold. Manufacturers remained optimistic of a rise in output in the coming year, but confidence was knocked such that it dropped to a series low."

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.