

IHS Markit Russia Manufacturing PMI®

July PMI drops to lowest since November 2020 amid weak client demand

Key findings

Renewed fall in production amid faster decline in new orders

Inflationary pressures remain historically elevated

Business confidence drops to nine-month low

Data were collected 12-26 July 2021.

July PMI® data signalled a sharper deterioration in operating conditions across the Russian manufacturing sector. Contributing to the faster downturn was a renewed fall in production and a steeper decline in new orders. Weak client demand led to reduced pressure on capacity, as employment and backlogs of work fell further. At the same time, rates of input cost and output charge inflation eased, but were historically substantial amid strong global demand for inputs.

Meanwhile, output expectations softened to the lowest in nine months, as concerns regarding future demand conditions weighed on confidence.

The headline seasonally adjusted IHS Markit Russia Manufacturing PMI® registered 47.5 in July, down from 49.2 in June. The latest decline in the health of the Russian manufacturing sector was the second in as many months, and the sharpest since November 2020.

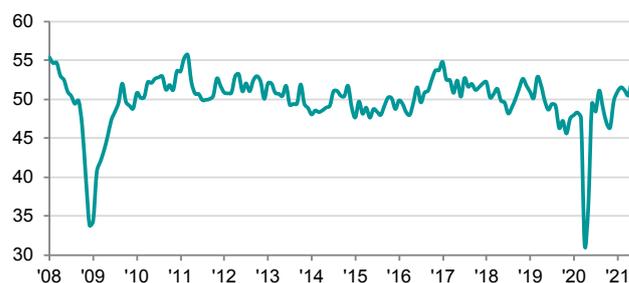
July data indicated a renewed contraction in production across the Russian manufacturing sector, the first such fall for seven months. The rate of decline was solid overall and the sharpest since May 2020. A number of survey respondents noted that the decrease in output was due to weak client demand and a drop in new sales.

At the same time, new orders fell for the second month running at the start of the third quarter. The rate of decrease quickened to a solid pace that was the fastest since November 2020.

Similarly, new export sales declined once again. The pace
continued...

Russia Manufacturing PMI®

sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

Commenting on the latest survey results, Siân Jones, Senior Economist at IHS Markit, said:

"Russian manufacturers signalled a further downward trend in the health of the sector during July. A stronger fall in new orders drove a renewed decline in output, and one that was the fastest since the depths of the pandemic in May 2020.

"Pressure on margins remained evident, as cost burdens rose markedly once again. Although firms passed through higher input prices where possible, the rate of charge inflation eased to a six-month low.

"Weak client demand and sharp increases in costs dampened optimism, which was in turn reflected in a solid drop in employment as pressure on capacity dwindled.

"The Bank of Russia recently noted that the economy had returned to pre-pandemic levels, with our latest forecast expecting industrial production to rise 6.1% on the year in 2021."

of contraction was marked overall and the steepest since January. The latest fall in new export orders was the sixth in the last seven months.

Meanwhile, cost burdens continued to rise substantially in July. Although the rate of cost inflation eased to the slowest in ten months, the pace of increase was much faster than the long-run series average. Firms noted that higher input prices were due to hikes in supplier costs and unfavourable exchange rate movements.

Manufacturers were able to increase their selling prices further at the start of the third quarter. Panellists often mentioned that increases in charges reflected efforts to partially pass on hikes in cost burdens. The pace of charge inflation was historically elevated despite softening to a six-month low.

Concerns regarding future demand conditions weighed on output expectations for the year ahead at goods producers during July. Although the degree of confidence remained upbeat owing to new product development and hopes of greater client demand, it slipped to a nine-month low.

Manufacturers continued to signal a reduction in pressure on capacity in July, as backlogs of work fell further. The pace of decline in work-in-hand was strong overall despite easing from that seen in June. At the same time, the rate of job shedding accelerated to the fastest since November 2020.

Finally, a reduction in production requirements and a drop in new orders led to the quickest fall in input buying since May 2020. As a result, both pre- and post-production inventories decreased once again as firms utilised current holdings of inputs and finished goods to fulfil new orders.

Russia Manufacturing PMI Input Prices Index
sa, >50 = inflation since previous month



Source: IHS Markit.

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Survey 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 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.

Survey dates and history

July data were collected 12-26 July 2021.

Survey data were first collected September 1997.

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