

IHS MARKIT RUSSIA MANUFACTURING PMI®

Renewed fall in output sparks faster deterioration in manufacturing performance

KEY FINDINGS

Production and new orders fall at fastest rates since May

Cost burdens rise at quickest pace since August 2018

Business confidence drops amid pandemic uncertainty

Data were collected 12-26 October 2020.

October PMI® data signalled a continued deterioration in the health of the Russian manufacturing sector. The overall decline was the fastest since May, amid a renewed fall in production and a quicker contraction in new orders. Spare capacity persisted, meanwhile, as firms shed more workers. Weaker client demand weighed on business expectations, as optimism sank to a five-month low.

On the price front, the rate of input cost inflation accelerated notably to the fastest since August 2018. Firms were able to partially pass on higher costs to clients, despite subdued demand.

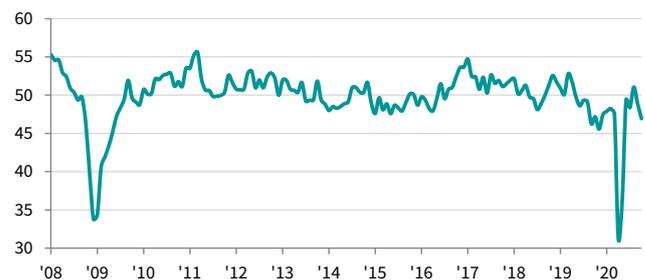
The headline seasonally adjusted IHS Markit Russia Manufacturing PMI® registered 46.9 at the start of the fourth quarter, down from 48.9 in September. The overall decline in operating conditions was the fastest for five months. That said, the rate of deterioration was much slower than that seen during April's nadir.

Contributing towards the faster overall decline was a renewed fall in Russian manufacturing output. Firms commonly linked the decrease in production to weaker client demand and the ongoing negative impact from the coronavirus disease 2019 (COVID-19) pandemic. The rate of contraction was the sharpest since May.

Reflecting weaker demand conditions, goods producers registered a further fall in new order inflows in October. The downturn was the fastest for five months, with some firms noting that offers and discounting were not enough to entice customers to place orders. The decline was largely driven by domestic clients, however, as new export orders rose for the

Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit

first time since December 2018.

In line with lower new order inflows, business confidence dropped to the lowest since May. Uncertainty regarding the COVID-19 pandemic and the longevity of restrictions continued to weigh on optimism. Firms were upbeat overall though that output will rise over the coming 12 months.

At the same time, employment fell at a solid rate in October amid ongoing signs of spare capacity across the sector. The rate of job shedding was faster than the series average despite easing from that seen in September. Evidence of excess capacity was seen through another monthly depletion in backlogs of work. The pace of contraction accelerated to a strong rate as lower new orders allowed firms to work through work-in-hand.

Although input buying contracted further in October, supply issues remained evident. Firms registered a solid extension in suppliers' delivery times amid raw material shortages and logistical difficulties stemming from the pandemic.

Supplier shortages contributed to a spike in cost burdens. Input prices rose at a marked pace that was the sharpest since August 2018. Some survey respondents also noted that unfavourable exchange rates had pushed up import prices.

Manufacturers were able to pass on some of the cost rises to clients, however, as selling prices increased steeply. The rate of charge inflation was the quickest since February 2019.

Inventories continued to decline, as firms sought to reduce costs and supplement production through the use of stocks to fulfill new order requirements.

COMMENT

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

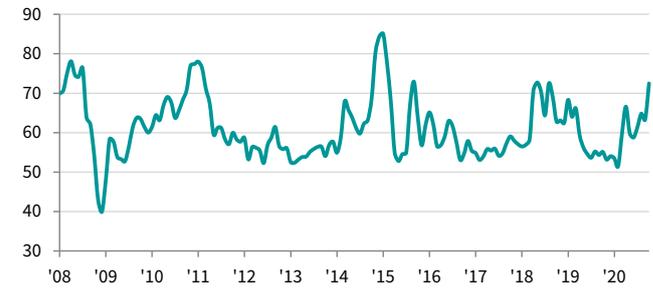
"Russian manufacturers lost further momentum towards recovery in October, as output and new orders contracted. The one bright spot was foreign demand which rose for the first time since December 2018.

"Weak domestic demand conditions weighed on hiring decisions as voluntary leavers were often not replaced amid burgeoning spare capacity and efforts to cut costs. Firms tried to protect margins, however, as the fastest rise in input prices since August 2018 was met by the sharp increase in charges.

"Our latest forecast anticipates that the Russian manufacturing sector will remain in contraction until the second quarter of 2021, as challenging domestic demand and ongoing uncertainty regarding the pandemic are expected to weigh on the recovery."

Input Prices Index

sa, >50 = inflation since previous month



Source: IHS Markit

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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.

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