June PMI lowest for almost a year amid decrease in new business

June survey data indicated that the Russian manufacturing sector deteriorated for the second successive month. The contraction stemmed from downturns in output and new business. The slowdown in client demand resulted in a further fall in workforce numbers and a faster depletion in backlogs. Firms also reacted to lacklustre demand by increasing output charges at the slowest pace since March 2018, with some highlighting discounting and promotional activity.

Manufacturers remained upbeat overall with output expectations towards the coming 12 months above the long-run average, but confidence eased to a near one-year low.

The seasonally adjusted IHS Markit Russia Manufacturing Purchasing Managers’ Index® (PMI®) – a composite single-figure snapshot of the performance of the manufacturing economy – registered 48.6 in June, down from 49.8 in May and signalling a slight deterioration in the health of the Russian manufacturing sector. The latest headline figure was the lowest since July 2018 and indicated downward pressure on growth at the end of the second quarter of 2019.

Weighing on June’s headline PMI was the first contraction in new business since August 2018. The fall was only slight, but signalled a notable turnaround from March’s recent high. Manufacturers suggested lower client purchasing power and weaker external demand had dragged on new order volumes. Concurrently, new export sales declined for the second month running.

Production also fell in June, following eight months of expansion. The downturn was the quickest since April 2016 as lower new order volumes led to a drop in output.

On the price front, input costs rose again in June. Manufacturers stated that higher raw material and supplier prices drove cost burdens up. That said, the rate of inflation was the softest since July 2017. Firms partly passed greater input prices on to clients through higher charges, but the pace of increase was only marginal overall, with some panellists suggesting that discounting and promotions held back rises in charges.

Meanwhile, strain on capacity was reduced further in June as backlogs of work continued to decrease. The marked fall was the fastest since March. Lower production requirements also had the knock-on effect of reducing employment further.

In line with a reduction in new order volumes, manufacturing firms registered a solid fall in input buying in June. The decrease was also the quickest for over four years. Firms also lowered stocks of purchases in the latest survey period.

Finally, output expectations over the coming 12 months remained above its historical trend, but eased to a near one-year low. Manufacturing firms stated that less robust confidence was linked to a drop in demand and lower client purchasing power.
COMMENT

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

“The Russian manufacturing sector continued to show signs of weakness in June, as production and new business dipped into contractionary territory for the first time since August 2018. Pressure on capacity was reduced further as backlogs fell markedly despite workforce numbers continuing to fall.

“Weighting heavily on overall demand conditions were lacklustre export sales. In fact, panellists reported greater promotional activity and discounting in an effort to bring in new clients and gain sales.

“A second successive deterioration in operating conditions led to less robust output expectations towards the coming 12 months. The degree of optimism softened for the third successive month to near one-year low amid lacklustre client demand.”

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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.

June 2019 data were collected 12-24 June 2019.

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

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