

Embargoed until 0900 MSK (0600 UTC) 1 October 2020

IHS MARKIT RUSSIA MANUFACTURING PMI®

Operating conditions deteriorate amid renewed drop in client demand

KEY FINDINGS

PMI dips into contraction territory, mainly driven by a fall in new orders

Output continues to rise, albeit at a softer pace

Marked rise in input prices

Data were collected 11-24 September 2020.

Latest PMI® survey data indicated a marginal deterioration in operating conditions across the Russian goods-producing sector at the end of the third quarter. The renewed contraction was driven by a fall in new orders, as client demand weakened. Nonetheless, output continued to rise, and at a solid rate, as firms resumed operations following the loosening of coronavirus disease 2019 (COVID-19) restrictions. Meanwhile, business confidence moderated and employment fell further amid lower new order inflows.

On the price front, the rate of output charge inflation picked up in September and input costs continued to increase sharply.

The headline seasonally adjusted IHS Markit Russia Manufacturing PMI® registered 48.9 in September, down from 51.1 in August. The marginal decline in the health of the Russian manufacturing sector was, however, much slower than that seen during the depths of the pandemic earlier in the year.

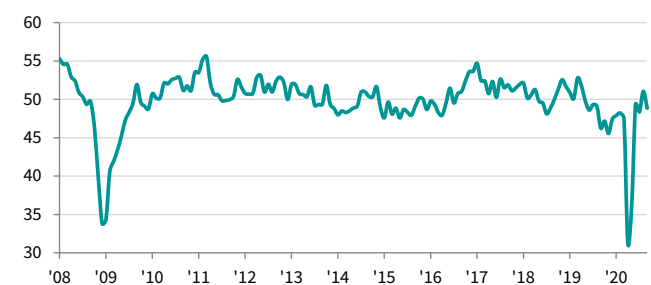
Contributing to the overall decline was a renewed fall in new orders in September. The decrease reportedly stemmed from muted client demand and cancelled projects. The rate of contraction was solid overall and the fastest since June. Similarly, new export sales were reduced and the pace of decline quickened notably since August.

Despite a drop in new business, manufacturers registered a further upturn in production during September. The increase was solid overall and the second-fastest since April 2019, albeit softer than that seen in August. Higher output was often attributed to the resumption of operations at firms following the easing of lockdown restrictions.

Meanwhile, cost burdens rose markedly. The rate of input price

Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit

inflation eased slightly since August but was still among the fastest for two years, as raw material shortages and supplier price hikes pushed up costs. Despite weak demand conditions, firms were able to partially pass on greater costs to clients through an increase in charges. The pace of output price inflation was solid overall and the fastest for four months.

In line with subdued client demand, firms cut their workforce numbers further in September. The rate of job shedding accelerated to a strong pace, as companies stated that weak new order inflows and excess capacity drove the decline. At the same time, backlogs of work decreased marginally. Although extending the current sequence of depletion to three years, the latest data indicated the slowest fall since January 2019.

Firms remained optimistic about the prospects of a rise in output over the coming 12 months amid hopes of an end to the pandemic and new product development. The degree of confidence was the softest for four months and below the series average, however, as muted new order inflows weighed on sentiment.

Finally, raw material shortages and logistics delays led to a further deterioration in vendor performance across the Russian manufacturing sector. Firms also reduced their inventories and purchasing activity amid softening demand conditions and subsequent efforts to cut costs.

COMMENT

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

"The recovery across the Russian manufacturing sector lost momentum in September, as weak client demand hampered any improvement in overall operating conditions. A renewed fall in new orders and a faster drop in external sales drove the decline, despite output rising solidly.

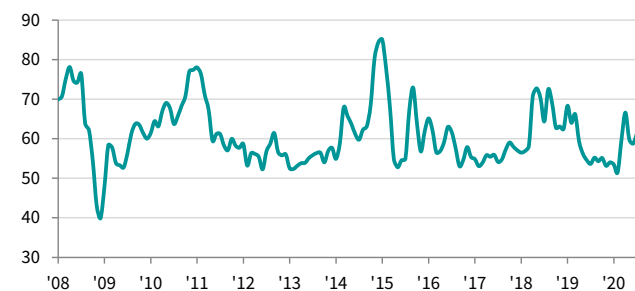
"Although firms resumed operations following the easing of restrictions, subdued order inflows and muted business confidence did not encourage the expansion of workforce numbers, with the rate of job shedding accelerating.

"Nonetheless, companies were able to raise their selling prices at a faster pace, as cost burdens ticked higher.

"With uncertainty in the global economy prevailing and domestic demand struggling for momentum, there remains a long recovery path ahead for the manufacturing sector."

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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