Russian manufacturing conditions continue to deteriorate in July

KEY FINDINGS

- PMI remains below 50.0 amid further falls in output and new orders
- Employment increases for first time since March
- Output charges rise only fractionally

July survey data signalled a further decline in the health of the Russian manufacturing sector, driven by another contraction in output and a drop in new business. The fall in client demand was seen among domestic and foreign customers, with new export orders decreasing at the fastest pace for five months. At the same time, optimism among manufacturers was the joint-weakest for a year. Nevertheless, employment returned to expansionary territory for the first time since March.

In an effort to bring in new orders, some firms engaged in discounting activity, with charge inflation easing amid a softer rise in input costs.

The seasonally adjusted IHS Markit Russia Manufacturing Purchasing Managers' Index® (PMI®) – a composite single-figure snapshot of the performance of the manufacturing economy – registered 49.3 in July, up slightly from 48.6 in June. The latest headline reading indicated a third successive deterioration in operating conditions across the Russian manufacturing sector. That said, the decrease at the start of the third quarter was only marginal overall.

Production levels at Russian manufacturing firms fell for the second consecutive month in July, albeit at only a fractional rate. The pace of decline softened from that seen in June, but was attributed to a further fall in new business. Goods producers linked this to weaker demand conditions and reduced purchasing power among clients.

The decrease in new orders received by Russian manufacturers was broadly in line with that seen in June, which was the quickest since July 2018. The downturn was seen among both domestic and foreign clients, with new business from abroad falling for the sixth time in the last seven months, and at the fastest rate since February.

Despite the decline in new business, Russian goods producers increased their workforce numbers for the first time in four months in July. The fractional rise in staffing levels was partly linked to efforts to process new orders which allowed backlogs to fall sharply. The level of outstanding business fell at a marked pace that was one of the fastest in two years.

Meanwhile, inflationary pressures softened in July as the slowest increase in input costs since February 2017 translated into only a fractional rise in output charges. Difficult demand conditions also led to greater discounting as firms tried to entice new business.

Manufacturers registered the joint-weakest degree of confidence in future output since July 2018, with reduced purchasing power among clients weighing on optimism. Positive sentiment was, however, linked to new product launches.

Finally, inventory levels continued to fall as stocks of inputs and finished goods both declined during the latest survey period. Purchasing activity increased only fractionally, in part due to efforts to replenish stocks.
COMMENT

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

"Russian manufacturers continued to highlight difficult demand conditions going into the second half of 2019, with new orders contracting for the second month running. Lower client purchasing power and issues with finance reportedly hampered demand from domestic and foreign customers. "Despite the downturn in output and lacklustre business confidence, employment rose for the first time since March as firms ramped up efforts to clear backlogs. Nonetheless, the rise was only fractional overall.

"Meanwhile, inflationary pressures softened further in July as slower increases in raw material costs and discounting among some firms weighed on any rises in factory gate charges."

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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.

July 2019 data were collected 12-25 July 2019.

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

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, favourered 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. To learn more go to ihsmarkit.com/products/pmi.html.

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