IHS Markit Russia Manufacturing PMI®

Slowest deterioration in manufacturing performance since August 2019

Key findings

Softer rate of contraction in new orders

Slowest rise in cost burdens in 11-year sequence of inflation...

...but output charges rise at quicker pace

Russian manufacturing firms indicated a further deterioration in operating conditions during February, albeit one that was the slowest for six months. The softer overall contraction was partially linked to the slowest decline in new orders since last July. Meanwhile, input prices rose at only a marginal pace amid lower buying activity and successful negotiations with suppliers. Nonetheless, firms continued to increase factory gate charges, and at a faster rate.

Supply chain issues intensified in February amid the outbreak of coronavirus in China. Vendor performance deteriorated to a greater extent and backlogs were processed at a slower pace as firms struggled to source some raw materials.

The headline seasonally adjusted IHS Markit Russia Manufacturing PMI® rose from 47.9 at the start of 2020, to 48.2 in February. Although the rate of deterioration in the health of the goods-producing sector eased to the slowest since last August, the latest data extended the current sequence of decline to ten months.

Russian manufacturers continued to register a contraction in production amid weak demand conditions. The rate of decrease was similar to that seen in January as firms reported reduced purchasing power among clients.

The decline in new orders eased midway through the first quarter, however. The rate of contraction was the softest for seven months and only marginal, with some firms noting small successes in new markets. Foreign client demand also fell at the slowest pace since last July.

At the same time, lower input buying among manufacturers led to an increase in price negotiations with suppliers. As such, input costs rose at the slowest pace since the current...

Comment

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

"Weak demand continued to weigh on the Russian manufacturing sector as contractions in production and new orders were sustained in February. The decline in total sales eased, however, as the sector showed some signs of recovering despite challenging domestic demand conditions.

"Meanwhile, the rate of input cost inflation sunk to its slowest for eleven years. Lower purchasing activity gave manufacturers the upper hand in negotiations with suppliers, with firms still able to pass costs on to clients through a faster rise in charges.

"Although our latest forecast points to accelerations in industrial production growth in the opening two quarters of 2020, manufacturers remain hesitant regarding their output expectations for the year ahead. Alongside softer business confidence, firms reduced employment at a sharper pace midway through the first quarter."
sequence of inflation began in February 2009. The marginal rise in cost burdens was well below the long-run series trend and the sharp increase in input prices seen during the same period in 2019 following a hike in VAT.

Despite weak demand conditions, firms were able to raise their output charges at a faster pace in February. Manufacturers were able to partially pass on higher costs to clients, albeit to a historically subdued extent.

Meanwhile, the closure of supplier factories in China following the outbreak of coronavirus led to a greater deterioration in vendor performance in February. Lead times across the Russian manufacturing sector were extended as firms faced material shortages. Therefore, pre-production inventories were reduced further and utilised to supplement production.

Business confidence continued to be weighed down by greater competition and weaker demand. The degree of optimism was among the lowest for over two years, despite firms highlighting hopes of an uptick in new orders and new product launches.

Subsequently, goods producers cut their workforce numbers again midway through the first quarter and at a faster pace as production requirements fell further. Despite supply chain issues and supplier shortages, firms were still able to reduce backlogs at a moderate rate.