News Release

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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.

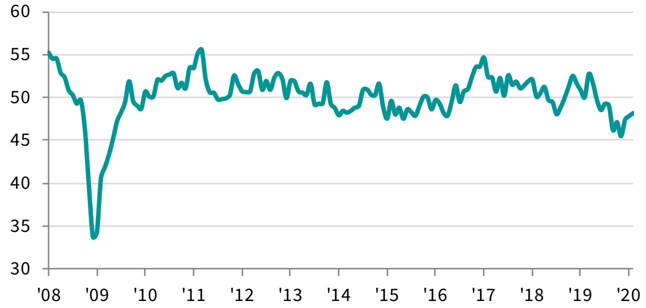
The decline in new orders eased midway through the first quarter, however. The rate of contraction was the softest for seven months and only marginal, with some firms noting small successes in new markets. Foreign client demand also fell at the slowest pace since last July.

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

continued...

Russia Manufacturing PMI®

sa, >50 = improvement since previous month



Source: IHS Markit.

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."

PMI® By IHS Markit

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.

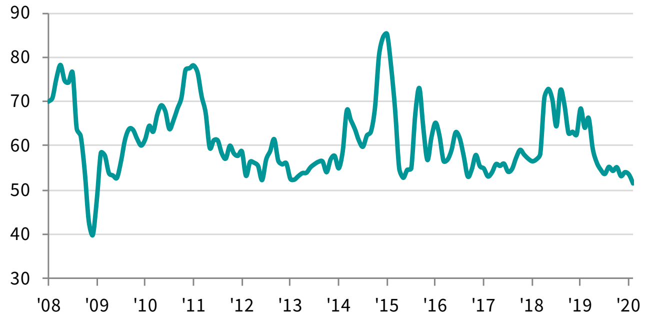
Meanwhile, the closure of supplier factories in China following the outbreak of coronavirus led to a greater deterioration in vendor performance in February. Lead times across the Russian manufacturing sector were extended as firms faced material shortages. Therefore, pre-production inventories were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

Input Prices Index

sa, >50 = inflation since previous month



Source: IHS Markit.

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Survey 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 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.

Survey dates and history

February data were collected 12-24 February 2020.

Survey data were first collected September 1997.

About IHS Markit

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