

IHS MARKIT RUSSIA MANUFACTURING PMI®

PMI signals further deterioration in operating conditions in August

KEY FINDINGS

Output and new orders continue to fall

New export orders pick up

Inflationary pressures intensify

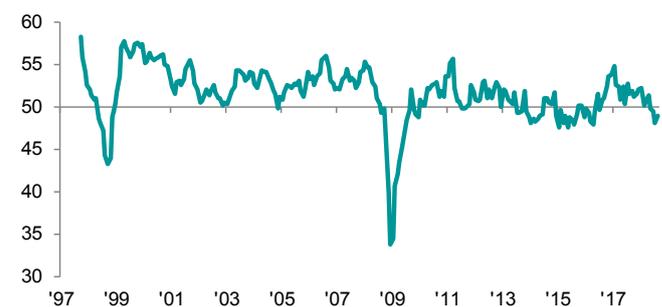
The latest PMI survey data signalled a further deterioration in overall business conditions across the Russian goods-producing sector. The downturn was driven by marginal falls in both output and new orders. Consequently, both employment and backlogs declined further amid reduced pressure on capacity. Exports, however, rebounded from July's slight fall, rising at the quickest pace since April. On the price front, rates of both input cost and output charge inflation accelerated.

The seasonally adjusted IHS Markit Russia Manufacturing Purchasing Managers' Index™ (PMI®) – a composite single-figure snapshot of the performance of the manufacturing economy – registered 48.9 in August, up slightly from 48.1 in July. The latest survey data signalled a continued deterioration in operating conditions, extending the sequence that began in May.

Output levels declined for the second month running in August, albeit at a softer pace. Anecdotal evidence suggested the latest fall was due to lower new order volumes and a drop in client demand. That said, the decrease in production was only marginal overall.

In line with weaker domestic client demand, the level of new business received continued to contract. The rate of the downturn eased from July, when it reached the quickest for over three years, and was marginal overall. In contrast, demand from clients based abroad increased in August. The rate of growth was the fastest since April despite being only slight.

Manufacturing PMI
sa, >50 = improvement since previous month



Subsequently, less strain was placed on capacities, with employment and backlogs continuing to fall. The rate of job shedding eased to a marginal pace that was the weakest in the current four-month sequence of decline. Backlog depletion, however, quickened and was the fastest since January 2015.

Meanwhile, rates of both input price and output charge inflation picked up following July's recent lows. Moreover, the pace of input cost inflation was marked and accelerated to the second-quickest in almost three years. Panellists commonly attributed the rise in costs to recently-announced changes in VAT, exchange rate movements and higher raw material prices.

Average prices charges rose further in August, with a number of survey respondents linking the sharp increase to the pass-through of higher costs to clients.

Vendor performance continued to deteriorate, with manufacturers noting a marginal lengthening of lead times. Panellists linked longer delivery times to raw material shortages.

Weaker client demand and input delivery delays led to further falls in buying activity and inventories. That said, the rate of contraction in purchasing levels moderated and was only marginal.

Finally, business confidence improved in August. The degree of optimism was the highest since April and partly driven by new product development.

COMMENT

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

"August data signalled a further, albeit weaker, deterioration in manufacturing performance. Output and new orders continued to decrease, with new business from abroad giving a glimmer of positive news by increasing marginally.

"Following a downturn in client demand, firms reduced their workforce numbers and backlogs depleted further. Notably, outstanding business fell at the fastest rate since January 2015.

"Panellists also continued to register marked rises in input prices and output charges, with rates of inflation accelerating in August. Recently-announced changes in VAT, exchange rate movements and higher raw material costs were commonly mentioned.

"With all that said, manufacturers indicated an improvement in business confidence, with optimism about future output at its highest since April."

Input Prices Index

sa, >50 = inflation since previous month



CONTACT

IHS Markit

Siân Jones
Economist
T: +44-1491-461-017
sian.jones@ihsmarkit.com

Joanna Vickers
Corporate Communications
T: +44-207-260-2234
joanna.vickers@ihsmarkit.com

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.

August 2018 data were collected 13-24 August 2018.

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

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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, favoured 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](https://www.ihsmarkit.com/products/pmi.html).