

Embargoed until 0900 Moscow (0600 UTC) 1 March 2019

IHS MARKIT RUSSIA MANUFACTURING PMI®

PMI slips to five-month low in February

KEY FINDINGS

Business conditions broadly unchanged in February

Fastest rise in output charges since March 2015 following VAT hike

Robust degree of business confidence

Russian manufacturing firms registered broadly unchanged operating conditions in February, with the headline PMI dipping to a five-month low. Although output growth picked up slightly, the upturn in new business softened and was the slowest since last September. Moreover, foreign client demand fell further and new export orders contracted at the quickest rate since April 2017. Nonetheless, firms remained upbeat and optimism reached its second-highest since May 2013.

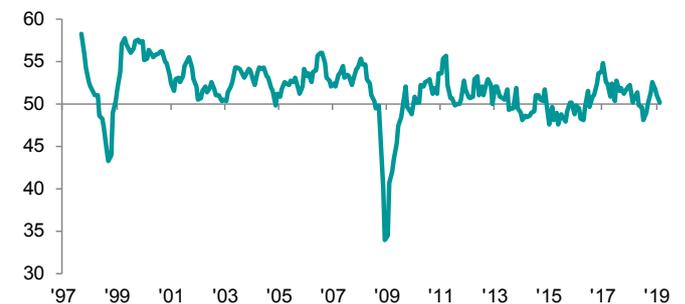
Meanwhile, the impact of a recent hike in VAT continued to push up input costs. Firms were able to partly pass higher expenses onto clients, as output charges rose at the quickest rate for almost four years.

The seasonally adjusted IHS Markit Russia Manufacturing Purchasing Managers' Index™ (PMI®) – a composite single-figure snapshot of the performance of the manufacturing economy – registered 50.1 in February, down slightly from 50.9 in January and just above the 50.0 no-change mark. The latest data signalled broadly unchanged operating conditions across the Russian manufacturing sector. Moreover, the headline PMI was at its lowest since last September.

Russian manufacturers signalled a sixth successive monthly increase in production in February, with the rate of expansion accelerating slightly from January's recent low. Nonetheless, the pace of growth was well below the series trend and only marginal overall. Although some panellists noted that output was supported by increased client demand and new customer acquisitions, others stated that underlying demand

Manufacturing PMI

sa, >50 = improvement since previous month



had softened.

Subsequently, the upturn in new business eased in February. The seasonally adjusted index posted above the 50.0 neutral mark, but indicated the slowest expansion since September 2018. Furthermore, new export orders declined for the second month running. The downturn accelerated to the quickest since April 2017.

On the price front, survey respondents registered a quicker and marked rise in output charges in February. Factory gate prices increased at the fastest pace since March 2015 as firms endeavoured to partly pass on a sharp rise in raw material costs, exacerbated by the recent hike in VAT. However, the rate of input price inflation softened from January's recent high, but was above the long-run series trend.

Despite a softer rise in new business and intense inflationary pressures, survey respondents remained upbeat that output levels would improve over the coming 12 months. The degree of confidence was the second-highest since May 2013.

Meanwhile, backlogs of work decreased sharply and at the quickest rate for six months. Nonetheless, manufacturers increased their workforce numbers.

Finally, contractions in buying activity and inventories quickened amid a slower increase in new orders and sharp rises in input costs.

COMMENT

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

"Weaker global demand conditions and the impact of the recent hike in VAT dented growth across the Russian manufacturing sector. Although the upturn in output quickened, the rise was only fractional and operating conditions were broadly unchanged in February."

"New export orders took a further tumble, and declined at the fastest pace since April 2017 as weaker demand from foreign clients took hold."

"Meanwhile, inflationary pressures remained strong following the rise in VAT. Notably, factory gate prices increased at the fastest rate in almost four years as firms sought to pass on higher costs."

"Nevertheless, manufacturers were expectant of an upturn in output over the coming 12 months. Business confidence was the second-highest since May 2013, despite softer demand conditions."

Input Prices Index

sa, >50 = inflation since previous month



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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.

February 2019 data were collected 12-22 February 2019.

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).