

IHS Markit Russia Manufacturing PMI®

Operating conditions deteriorate for first time in 2021 amid weak client demand

Key findings

Output rises further, despite renewed decline in new orders

Employment falls amid lower pressure on capacity

Cost inflation picks up as supplier shortages push up input prices

Data were collected 11-24 June 2021

June PMI® data signalled a renewed decline in operating conditions across the Russian manufacturing sector, the first such deterioration in 2021 so far. Although only marginal, the downturn was driven by weak client demand and the first fall in employment so far this year. Nonetheless, manufacturers remained upbeat regarding their output expectations, with the degree of confidence improving.

Meanwhile, supply-chain disruptions persisted and led to material stock depletion and further hikes in input costs. Firms still sought to pass on higher input prices to customers, however.

The headline seasonally adjusted IHS Markit Russia Manufacturing PMI® registered 49.2 in June, down from 51.9 in May. The latest figure signalled an end to a five-month sequence of improvement in the health of the manufacturing sector. The deterioration in operating conditions was only marginal overall, however.

Contributing to the fall in the headline figure was a renewed decline in new order inflows during June. The decrease in client demand contrasted with a modest expansion in new sales in May, and was the fastest since November 2020. The downturn in demand conditions was widely linked to reduced purchasing power at customers amid surging costs. The downward trend was also reflected in new export orders which fell at the quickest rate for five months.

In contrast, output continued to expand in June. The rise in production was the sixth in as many months, despite being only marginal overall. The slowdown in output growth was,

continued...

Russia Manufacturing PMI®

sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

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

"The Russian manufacturing sector took a step backwards in June, as weak domestic and foreign client demand weighed on the overall sector performance. Although some firms reportedly started to build stocks of finished goods, reduced pressure on capacity led to the first round of job cuts in 2021 so far.

"Exacerbating the challenges facing the sector were further supplier delays and hikes in input costs. Despite reports of a negative impact on demand at some firms, manufacturers partially passed through greater input prices to clients through a marked rise in charges.

"Nonetheless, firms' output expectations remained upbeat amid hopes that demand conditions will tick higher in the year ahead. Our current forecast expects industrial production to rise by 4.3% year-on-year in 2021."

however, attributed to unstable demand conditions and lower new order inflows.

Weak client demand led to a reduction in pressure on capacity at the end of the second quarter, with backlogs of work falling sharply. The decline in work-in-hand was the strongest since the depths of the pandemic in May 2020.

As a result of lower production requirements and sufficient capacity to process backlogs, firms cut their workforce numbers in June. The decrease was the first round of job shedding in 2021 so far, but only modest overall.

Vendor performance continued to deteriorate in June, as suppliers' delivery times were extended significantly. Delays were commonly linked to raw material shortages and transportation issues.

Input costs were once again driven higher by supplier shortages and unfavourable exchange rate movements in June, according to survey respondents. The rate of cost inflation was marked overall and among the fastest on record.

Consequently, manufacturers raised their selling prices at a historically elevated pace, albeit one that was slower than that seen in May. Some firms stated that the softer increase stemmed from higher output charges negatively impacting client demand.

Meanwhile, higher cost burdens led firms to further deplete their stocks of inputs during June. Pre-production inventories fell at the fastest pace since last October amid a marginal decline in input buying. Stocks of finished goods, however, decreased at a softer rate as some firms were reportedly able to replenish holdings amid lower new sales.

Russia Manufacturing PMI 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

June data were collected 11-24 June 2021.

Survey data were first collected September 1997.

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