Output contracts at further marked rate amid ongoing COVID-19 impact

**KEY FINDINGS**

- Production and new orders fall at substantial paces amid weak demand
- Employment declines markedly
- Business confidence turns negative for first time on record

Latest PMI® survey data signalled a further marked decline in output across the Russian manufacturing sector, amid the ongoing impact of the coronavirus disease 2019 (COVID-19) outbreak. Global lockdowns and weak client demand were commonly linked to the decrease in new orders, which fell at the second-steepest rate since December 2008. Subsequently, greater spare capacity led to a substantial reduction in workforce numbers. At the same time, the drop in employment mirrored increased pessimism among manufacturers regarding the outlook for output over the coming year. Business confidence turned negative and slid to a record low amid fears of a slow recovery.

Meanwhile, rates of inflation eased from April's recent peaks but remained solid amid a sharp rise in input costs.

The headline seasonally adjusted IHS Markit Russia Manufacturing PMI® registered 36.2 in May, up slightly from 31.3 during the opening month of the second quarter. The latest headline figure signalled the second-sharpest deterioration in operating conditions across the Russian manufacturing sector since early-2009.

Driving the decline in overall sector performance was another severe monthly decrease in production during May. Although less marked than April's record, the decline in output was among the strongest for over 11 years. The downturn was commonly linked to weak demand conditions and smaller order volumes due to lockdown measures.

May data signalled one of the most severe contractions in new business since December 2008, as global lockdowns and temporary customer closures led to subdued demand. Total sales were also impacted by less frequent, smaller orders. External demand also suffered from the escalation of the virus response, with new export orders falling significantly. With the exception of April's recent low, the drop in foreign demand outpaced any seen since the depths of the global financial crisis. Reflecting lower client demand, goods producers cut their workforce numbers further in May, and at a severe rate. The fall was commonly attributed to a sustained reduction in new orders and backlogs of work, with excess capacity expanding.

At the same time, firms expressed negative sentiment towards output over the coming year. Manufacturers are expecting production to fall in the coming 12 months, the first instance of pessimism since data collection for the series began in April 2012. Firms commonly cited fears of a lengthy recovery and further sustained period of muted demand.

On the price front, input costs rose at a steep rate in May as suppliers increased their charges and rouble weakness drove import prices up. Although slower than April’s recent peak, the rate of input price inflation was among the fastest since the VAT hike in early-2019. In an effort to partially pass on higher costs to clients, firms raised factory gate charges at a solid pace.

Finally, weak demand led to a marked decline in input buying. There were also some mentions of firms using stocks in production. Nevertheless, vendor performance deteriorated further amid COVID-19-related transportation issues.
COMMENT

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

“May data indicated a slightly softer, albeit still severe contraction in Russian manufacturing production. Declines in domestic and foreign demand weighed on output, as the impact of the COVID-19 outbreak and emergency measures were felt yet again by goods producers.

“Manufacturers do not foresee conditions improving over the next year, as expectations turned pessimistic for the first time on record. Our current forecast for industrial production signals year-on-year contractions in output until the second quarter of 2021. Fears of a prolonged recovery partially drove a marked fall in employment as excess capacity increased.”

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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.

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