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IHS MARKIT RUSSIA MANUFACTURING PMI®

Solid deterioration in operating conditions amid strong fall in new orders

KEY FINDINGS

Sustained declines in output and new business

New export orders fall at fastest pace since 2009

Business confidence picks up

The Russian manufacturing sector signalled a further solid deterioration in operating conditions in October, driven by weaker client demand. Further contractions in output and new orders led to reduced pressure on capacity and a drop in workforce numbers. That said, firms remained strongly optimistic towards output over the coming 12 months.

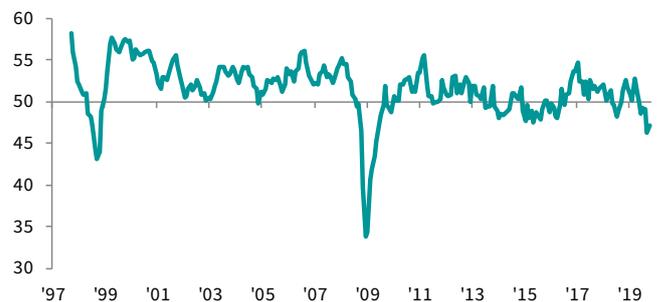
On the price front, inflationary pressures picked up slightly but remained historically muted. Output charges rose only marginally as firms sought to stay competitive.

The seasonally adjusted IHS Markit Russia Manufacturing Purchasing Managers' Index™ (PMI®) – a composite single-figure snapshot of the performance of the manufacturing economy – registered 47.2 in October, up from 46.3 in September, but signalling a sixth successive decline in the health of the manufacturing sector at the start of the fourth quarter of 2019. The pace of the overall contraction was the second-strongest since May 2009.

Russian manufacturers registered a further decrease in production in October. Although the rate of decline softened from September's recent record, it was solid overall and among the fastest for three-and-a-half years. The downturn in output was attributed to lower client demand and a sustained drop in new business.

At the same time, hesitancy among customers to place new orders led to a fifth successive fall in factory sales. Muted domestic demand was accompanied by a marked decline in new export orders, the sharpest decrease for over a decade. Panellists stated that the downturn was driven by

Manufacturing PMI
sa, >50 = improvement since previous month



Source: IHS Markit

challenging external demand conditions.

Despite lower sales, manufacturers remained strongly optimistic towards output over the coming 12 months, with the level of positive sentiment picking up from September. Confidence was commonly linked to new product developments and planned investment in new machinery.

Nonetheless, optimism did not translate into an increase in employment. Lower production requirements following a sustained fall in new business led to a third successive decrease in workforce numbers in October, as voluntary leavers were not replaced. Furthermore, firms reported a steep reduction in backlogs of work.

Meanwhile, input prices continued to rise at an historically subdued pace. Although some firms noted higher supplier and energy costs, the rate of increase was well below those seen at the start of the year. Alongside difficult demand conditions and effort to stay competitive, firms struggled to pass on costs to clients, with charges rising only marginally.

Finally, firms reduced their purchasing activity further as they supplemented production through the use of pre-production inventories. Stocks of finished goods also fell amid lower client demand and efforts to run down stores.

COMMENT

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

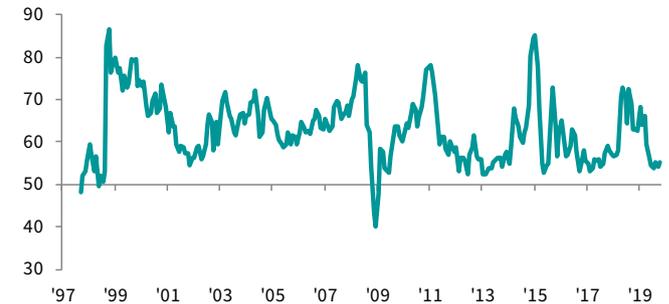
"Manufacturers across Russia continued to register strong falls in output and new orders, with client demand declining at the sharpest pace since April 2009 in October. Underpinning the decrease in demand was an accelerated and marked contraction in new business from abroad.

"Although employment fell further amid lower production requirements, firms remained robustly optimistic regarding output over the coming year. Business confidence reportedly stemmed from planned investment in machinery and new product developments.

"Muted growth across the sector at the beginning of the fourth quarter reflected our current forecast for a 0.6% quarter-on-quarter contraction in industrial production during the final three months of 2019."

Input Prices Index

sa, >50 = inflation since previous month



Source: IHS Markit

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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.

October 2019 data were collected 11-25 October 2019.

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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).