

Snap | 1 March 2018

RUSSIA

Russia: PMI manufacturing unexpectedly drops

It is not a disaster yet as PMIs have been very volatile, but the data allows the central bank to proceed with rate cuts



Source: shutterstock

50.2 **PMI manufacturing**
vs consensus/previous of 52.0/52.1

The PMI index is the lowest since Jul-16

Business activity in the Russian manufacturing sector unexpectedly moderated in February, reaching the lowest level since Jul-16 after accelerating to 52.1 in January. The decline was mostly driven by weaker growth in industrial output and new domestic orders. Employment saw a decline, too, for the second month in a row. Yet, growth in exports orders remained solid, at the highest pace since Nov-11, reflecting rising external demand and, probably, the stabilising effects of the fiscal rule on the rouble real effective exchange rate (REER). Output/input price pressures remained muted and generally low compared to long-term averages. One positive factor was a further increase in business expectations to the highest in

five months due to optimism about global demand.

PMI tends to be volatile, but flags industrial growth moderation

The PMI manufacturing index has historically been volatile, but the latest decline pushed the 3M-average to 51.4, the lowest since Oct-16. A weaker trend has also been seen in the official Rosstat survey with its seasonally-adjusted index falling in February from -2.1 to -3.4, which is the lowest point since Dec-16. This points to some normalisation of manufacturing growth last month after a surge to 4.7% in Jan-18.

We wouldn't exaggerate the importance of the figure at this stage, but the mix of volatile manufacturing trends and still muted price pressure jibes with the central bank's course of faster policy normalisation over 2018. Hence, we remain pretty comfortable with our forecast of the CBR rate falling to 6.5% by Dec-18 from current 7.50%.

It is worth remembering that President Putin is set to make his traditional Address to the Federation Council and there are strong expectations that he will outline his strategy ideas for the next presidential term, which he will likely win in the forthcoming elections.

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