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Russian Manufacturing Shrinks at Fastest Rate Since March 2022 – S&P

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Vitaly Nevar / TASS

Russia's manufacturing sector contracted in July at its steepest pace since the early weeks of the war in Ukraine as business confidence slid to its lowest level in nearly three years, according to a new S&P Global survey reported by Reuters on Friday.

The Purchasing Managers' Index (PMI) for Russian manufacturing fell to 47.0 in July, down from 47.5 in June. Any reading below 50 signals a decline in activity.

S&P Global noted a "solid decline" in the health of the sector, driven by shrinking demand and worsening financial conditions. New orders fell for the fourth time in five months, while production volumes declined due to challenges in securing financing and receiving payments.

"The reduction in production levels was commonly linked to lower new order inflows and weak demand conditions amid challenges securing finance and receiving payments," the report said.

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The country's industrial growth has slowed after an initial boost from increased military production in the wake of Russia's full-scale invasion of Ukraine.

High borrowing costs driven by the Central Bank's aggressive rate hikes have weighed heavily on investment and consumption. Although the Central Bank recently cut its key rate by 2 percentage points to 18%, it remains at one of the highest levels in two decades.

At the same time, export demand rose for the first time in five months, offering a modest boost to manufacturers.

Business confidence remains in positive territory but dropped to its lowest point since August 2022.

"Although companies hope that investment in new products and facilities will support output growth, economic uncertainty and reduced purchasing power at customers dampened positive sentiment," S&P Global noted.

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