

# Russia

## Record fall in industrial production in January prompts alarming downward revision to 2009 GDP forecast

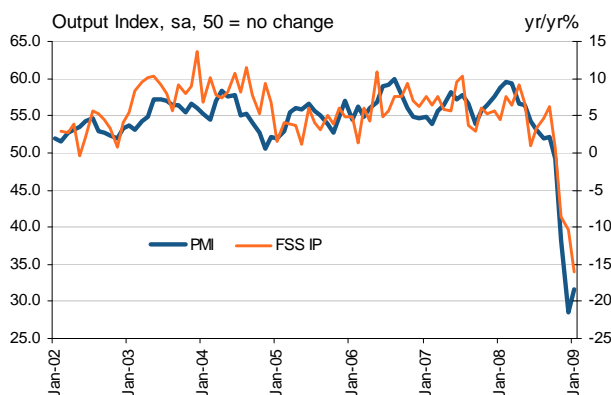
### Key findings

- **The latest gloomy data showed a steep fall in factory output...**
- **...leading to a new estimate of 2.2% contraction in GDP in 2009**
- **PMI indicated that manufacturing sector remained in the doldrums.**

### Steepest decline in official factory output on record in January

The latest grim batch of economic data from Russia showed a record fall in industrial output in the first month of 2009. Production fell 19.9% m/m for a 16% y/y drop, the largest in the seven-year history of the official series. Manufacturing was a key source of weakness, posting a 24.1% annual decline as factories initiated stoppages and slashed working hours.

**Chart 1: PMI Output Index vs industrial production**



January PMI data chimed with the grim official figures. As the chart above shows, the Output Index posted a record low in December, recovering only modest ground in January. The Index has a correlation of 0.79 with the seven-year official industrial production series.

### Russian economy now set to shrink 2.2%

The decline in official output in January was much worse than expected and was swiftly followed by a downward revision to 2009 GDP and IP forecasts from the Economy Ministry on 17 February. The government now expects the economy to contract by 2.2% this year, a much gloomier proposition than the 0.2% shrinkage forecast last month. Industrial production is now seen to fall by 7.4% (previously 5.5%). Crucially, the new forecast for GDP is based on unchanged assumptions for oil prices at \$41, suggesting that concerns are growing about a lack of demand in the real economy – as shown by PMI data.

Recent PMI research has shown that the Russian GDP Indicator, based on manufacturing and services PMIs compiled by Markit for VTB Capital, pre-empted downward revisions to 2008 GDP forecasts by the Economy Ministry<sup>1</sup>. The Indicator slumped to a decade-low -4.0% in January, having previously signalled the sharp slowdown in annual GDP growth in the fourth quarter of 2008.

1) <http://www.markit.com/information/news/commentary/markit-economics/contentParagraphs/01116/document/Russia%20Q4%20GDP%20090213.pdf>

### Forthcoming release dates (February data):

- Russian Manufacturing PMI: 2 March 2009
- Russian Services PMI: 4 March 2009
- Russian GDP Indicator: 5 March 2009

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