

Russian GDP

Fourth quarter growth faltered; PMI-based GDP Indicator signalling contraction at start of 2009.

Key findings

- Preliminary official figures show near-collapse in growth in Q4 to 1.1%.
- PMI-based GDP Indicator warned of sharp slowdown...
- ...and signalled year-on-year contraction of 4% in January.

Growth slipped sharply in Q4

Preliminary figures from the Economy Ministry showed that economic growth in Russia faltered in the final quarter of 2008. The annual rate of expansion slumped to 1.1%, from 6.2% in Q3. This sharp deterioration in the economy was flagged up by VTB Capital's monthly GDP Indicator – based on the PMI surveys compiled by Markit for Russia's manufacturing and service sectors – well in advance and highlights the surveys' ability to track turning points in the economy. The GDP Indicator, released every month following the PMI surveys, registered average annual growth of 2.0% in Q4, down from 6.8% in Q3.

Chart 1: GDP Indicator vs. official quarterly GDP

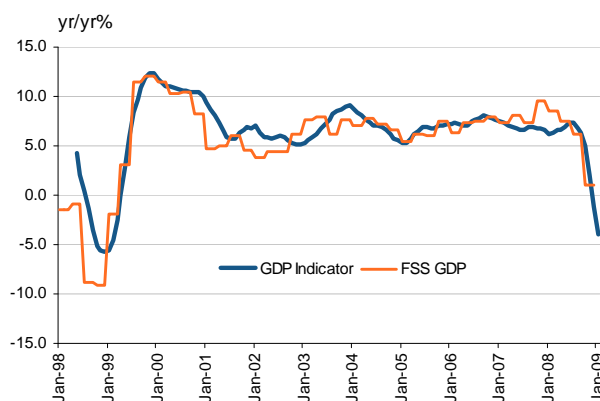


Table 1 shows how the GDP Indicator has tracked the stagnation in growth in the second half of 2008 and compares this with changes in Economy Ministry GDP estimates. The table shows how falls in the GDP Indicator in the latter part of the year pre-empted downward revisions in the official forecasts. The latest official estimate of 2008 growth of 5.6% is broadly in line with the GDP Indicator 2008 trend level of 5.5%.

Table 1: GDP Indicator vs. official forecasts (%yr/yr)

Period	Russian GDP Indicator		Economy Ministry	
	Release date	GDP	Revision date	2008 forecast
Jan-08	06-Feb	6.2		6.6
Feb-08	06-Mar	6.3	24-Mar	7.1
Mar-08	04-Apr	6.6	17-Apr	7.6
Apr-08	07-May	6.6		7.6
May-08	05-Jun	6.9		7.6
Jun-08	04-Jul	7.4	28-Jul	7.8
Jul-08	06-Aug	7.3		7.8
Aug-08	04-Sep	6.8		7.8
Sep-08	06-Oct	6.4	29-Oct	7.3
Oct-08	07-Nov	5.0	24-Nov	6.8
Nov-08	04-Dec	2.1	13-Dec	6.0
Dec-08	07-Jan	-1.1		6.0
Jan-09	05-Feb	-4.0	02-Feb	5.6

Russian economy shrinking in Q1

The latest GDP Indicator data pointed to a sharp contraction of the Russian private sector economy in January, plunging to signal a 4.0% year-on-year contraction, the lowest reading since February 1999. The latest monthly estimate from the Economy Ministry was broadly consistent with the December GDP Indicator, showing an annual rate of contraction of 0.7% in the final month of last year.

Government full-year forecasts for 2009 have tumbled in recent months along with 2008 estimates. Having expected growth this year of around 6.7% prior to the steep downturn in the economy at the end of 2008, officials downgraded this to 2.4%, based on an average oil price of \$50. In January, this was slashed further to a contraction of 0.2%, based on oil averaging \$41. At the time of writing, West Texas Intermediate crude was trading at \$34. The forthcoming February GDP Indicator, due for release on 5 March, will shed

further light on the severity of the looming contraction in the first quarter already signalled by January data.

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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