

Russia

PMI data point to slower manufacturing decline in March

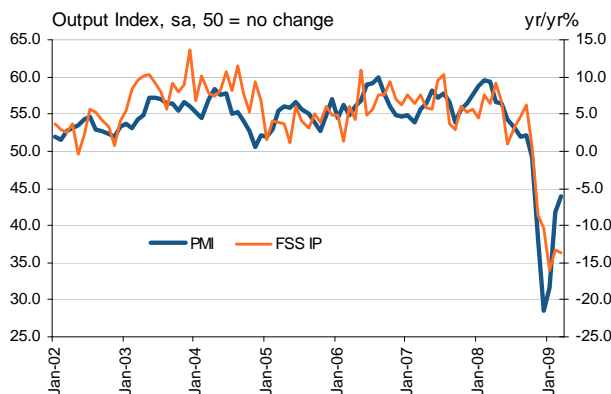
Key findings

- Industrial output fell 13.7% yr/yr in March.
- PMI Output Index showed weakest fall since last October.
- But weakening labour market bodes ill for consumer demand.

Official data remained bleak

The latest official figures from the Federal Statistics Services showed another plunge in Russian industrial production in March. Factory output fell 13.7% year-on-year, following February's 13.2% contraction and January's record 16% drop. Manufacturing output fell by over a fifth in March on an annual basis.

Chart 1: PMI Output Index vs industrial production



PMI data for March produced by Markit for VTB Capital provided further signs that the rate of decline in the first quarter as a whole represented a nadir. The Output Index signalled a further sharp fall in production, but rose to a five month high. Rates of decline in new orders and raw material purchases also moderated.

Manufacturing PMI output data for Russia have a good track record against the seven-year official industrial

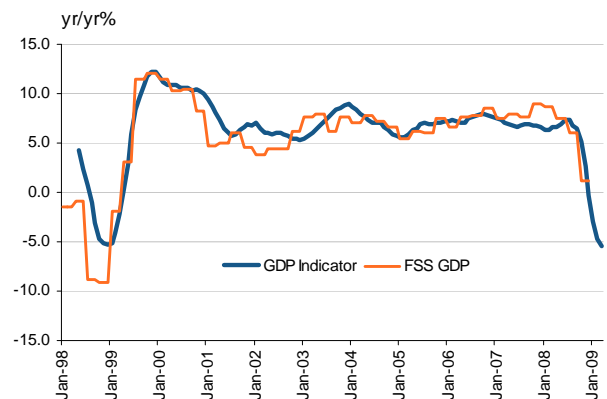
production series, exhibiting a correlation of 0.81 with the annual rate of change.

Record job shedding in services

The Services PMI for Russia meanwhile signalled a further marked overall contraction of the sector in March. Although activity and new business both declined at weaker rates, the workforce contracted at the fastest rate since the survey began in late 2001. This suggests worsening consumer demand in the coming months as the newly out-of-work reduce their spending.

Composite PMI data (derived by weighting together manufacturing and services indices) provide insights into GDP trends in Russia. The PMI-based GDP Indicator performs well against official data. Since May 1998 the Indicator registers a correlation of 0.87 with the annual rate of change in quarterly GDP.

Chart 2: PMI GDP Indicator vs official data



Official growth collapsed to 1.2% in Q4 2008, from a downwardly revised 6% in Q3. The latest PMI-based Indicator signalled that GDP declined by a record 5.4% on an annual basis in March. Over the first three months of 2009 the Indicator has averaged -4.4%.

Forthcoming release dates (April data):

Russian Manufacturing PMI: 4 May 2009

Russian Services PMI: 6 May 2009

Russian GDP Indicator: 7 May 2009

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