

Russia

PMIs provide some positive signs amid bleak official data

Key findings

- **Official Q1 GDP revised down.**
- **PMIs pointing to softening downturn.**
- **Industrial output plunged by record 17.1% yr/yr in May.**

GDP revised lower in Q1

On 11 June the Federal Statistics Service revised down its preliminary estimate of first quarter GDP. The year-on-year contraction was adjusted to -9.8% from a previously reported -9.5%. By industry, manufacturing registered a fall of 23.5%, construction 20.9% and real estate 7.8%. Over 2009 as a whole, the official forecast for GDP is a contraction of 6%, in line with a recent IMF forecast.

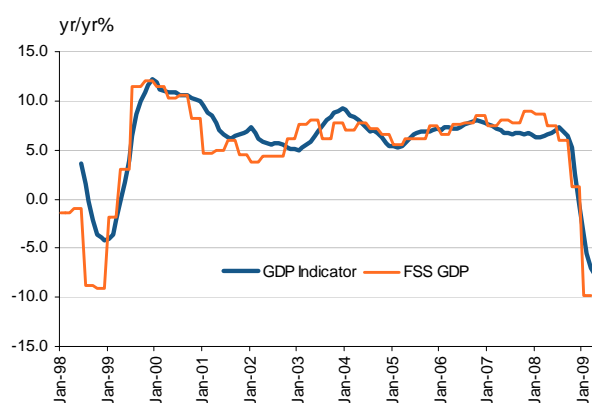
PMI data show softer downturn in Q2

Composite PMI data, produced by Markit for VTB Capital and derived by weighting together manufacturing and service sector PMI survey data, provide insights into monthly GDP trends in Russia in advance of official quarterly figures. Fitted against GDP (see chart 1), the composite PMI series rose in May for the first time since July 2008, signalling a weakening rate of GDP contraction. Still, the latest figure was historically weak, pointing to an annual rate of decline of 6.8%. Over the last three months, this PMI-based GDP Indicator has been lower than in any period since it began in mid-1998.

Historically, the PMI data have provided a very accurate advance guide to official GDP data (a correlation of 0.89 with the annual rate of change in GDP). But official Q1 GDP was much worse than the trend signalled in advance by the PMI-based series, which averaged -5.4% over the first three months of 2009. This discrepancy could partly reflect the lack of construction data in the PMI series, plus the effect of weak investment and oil prices on the official measure

(the PMI surveys for manufacturing and services focus on current business conditions and are designed to track month-on-month changes in output).

Chart 1: PMI GDP Indicator vs official data



Relatively weak official data compared to PMI-based figures are likely to persist in the second quarter. The PMI currently suggests an annual contraction of 7.2% over April-May, while the Economy Ministry estimated GDP to have fallen 10.5% yr/yr in April. However, officials, including Finance Minister Kudrin, have expressed the view that the pace of contraction will ease in Q2, which is in line with the latest PMI survey findings and rising oil prices.

Service sector decline eases

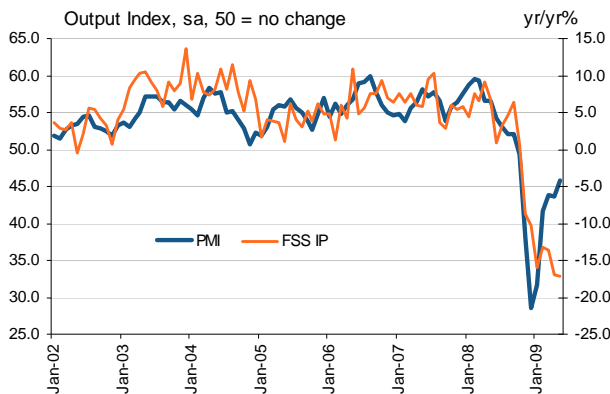
One of the advantages of PMI data for Russia is the production of monthly data on services, which is not covered by official sources (although the Economy Ministry produces monthly GDP estimates). May survey data indicated a further sharp contraction of service sector activity. However, the rate of decline moderated for the fourth month running to its weakest in seven months.

Industrial production disappoints, but also shows signs of turning a corner

The latest figures from the Federal Statistics Service released on 16 June showed another plunge in Russian industrial production in May. Factory output

declined by 17.1% compared to one year earlier, beating the previous record 16.9% drop posted in April. Warm weather and production stoppages aimed at depleting inventories were believed to have affected the weak May figures. However, manufacturing output fell by a slightly weaker rate compared to April (-23.7% yr/yr, from -25.1%).

Chart 2: PMI Output Index vs industrial production



Similarly, PMI data also signalled a further sharp fall in production in May, but the Output Index rose to a six-month high. 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. Rates of decline in new orders also moderated in the latest period, pushing the new orders to inventory ratio to its highest since last September. This backs the view that the official measure of industrial production will improve in the coming months as firms re-stock inventories.

Forthcoming release dates (June data):

Russian Manufacturing PMI: 1 July 2009

Russian Services PMI: 3 July 2009

Russian GDP Indicator: 6 July 2009

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