

Russia

Russian economy contracts in first quarter

- **PMI™ data point to economic decline of 0.4% in first quarter with recession possible in 2014**
- **Survey data follow news of mere 1.3% GDP growth in 2013**
- **Survey data highlight surge in inflation in March**

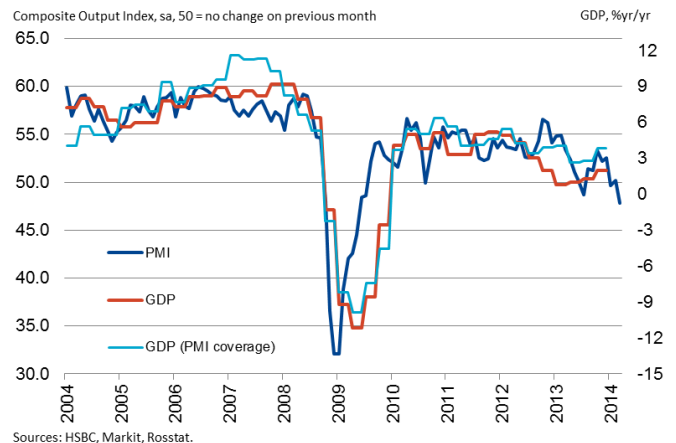
Russian PMI data for the first quarter of 2014 signalled the worst business conditions for manufacturers and service providers since mid-2009. The [Composite PMI Output Index](#) fell to 47.8 in March, the lowest since May 2009 and signalling contraction. Given that manufacturing and services have supported recent economic growth (see chart, right), this decline could act as a significant drag on total GDP unless other sectors such as utilities and construction pick up. The PMI data are consistent with a quarter-on-quarter decline in GDP of 0.4% in the first quarter (and zero annual growth). Moreover, forward-looking indicators from the surveys have also deteriorated sharply, so a technical recession in the first half of the year looks a distinct possibility.

Improvement in GDP growth at end of 2013 looks temporary

Official data published on 1 April showed a 2% year-on-year rise in GDP in the final quarter of 2013, an improvement on the revised 1.3% gain seen in the third quarter. But growth remained weak by Russian standards, and well down on pre-crisis boom levels: growth for 2013 as a whole was just 1.3%.

The slight improvement in growth in Q4 was signalled in advance by PMI data covering manufacturing and services. The Composite Output Index averaged 52.7 in the final three months of 2013, the highest quarterly average since the opening quarter of last year. This matches the trend shown in official manufacturing and services GDP. The survey data were corroborated by the latest official results: overall, the sectors covered by PMI data* grew by 3.9% in the fourth quarter on an annual basis. Weak points were utilities (-4.5%) and construction (-3.1%). But given the marked weakening shown by the PMI data in Q1, the fourth quarter improvement looks likely to be short-lived.

Russia PMI and GDP

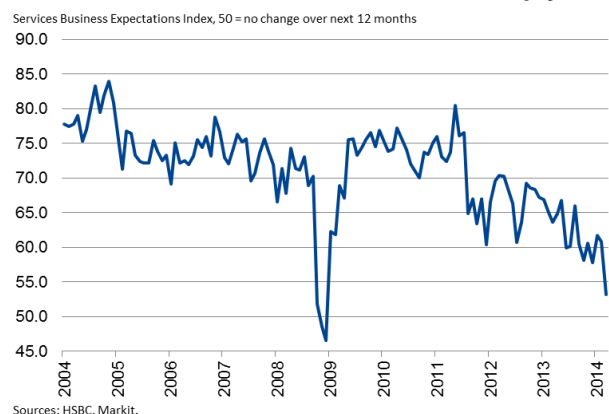


Russia GDP by selected sectors: Q4 2013

| Sector | % yr/yr ¹ | % of GDP ² |
|------------------------------------|----------------------|-----------------------|
| Financial Activities* | 11.8 | 4.6 |
| Agriculture, Hunting And Forestry | 10.0 | 4.2 |
| Real Estate And Business Services* | 3.5 | 12.5 |
| Public Administration | 3.3 | 6.1 |
| Manufacturing* | 3.0 | 15.3 |
| Wholesale And Retail Trade | 2.6 | 17.9 |
| Transport And Communications* | 2.0 | 7.8 |
| Mining | 0.1 | 10.2 |
| Hotels And Restaurants* | -0.9 | 1.0 |
| Construction | -3.1 | 8.6 |
| Utilities | -4.5 | 3.6 |

Source: Rosstat.¹ Annual change Q4 2013 vs Q4 2012, at constant prices. ² % of total, current prices. *Sectors monitored by PMI surveys.

Service sector outlook deteriorates sharply



Broad-based weakness in manufacturing and services

In March, [service providers](#) had their worst month since a heatwave disrupted business in August 2010, with activity, employment and new business falling. Five out of six detailed sectors monitored by the survey registered declines in activity. Furthermore, the 12-month outlook for services activity was the worst reported since December 2008. Close to 30% of firms expect a decline over the coming year, linked to economic and political uncertainty and the weak rouble.

[Manufacturing](#) fared even worse. Output fell for the third month running in March, and at the strongest rate since May 2009. New export orders appear to be weighing on demand, falling for the seventh month running and at a faster rate. Backlogs, new orders and employment in manufacturing all declined in the latest survey. Moreover, the ratio of new orders to inventories dropped to its lowest since April 2009, signalling a further contraction in output in April.

Russia's manufacturing stagnation in the early months of 2014 is in marked contrast to the resurgence signalled in European economies further west, with [Poland](#) and the [Czech Republic](#) both registering further strong expansions in March and benefitting from an ongoing recovery in the [eurozone](#) in particular.

Inflationary pressures build, linked to currency weakness

Russian survey respondents widely highlighted the effect of the weakening rouble on their costs in March. Manufacturing input price inflation surged during the month to the highest in three years, and output price inflation followed a similar trend. Service providers also suffered, seeing their average input costs rise at the fastest rate since May 2011.

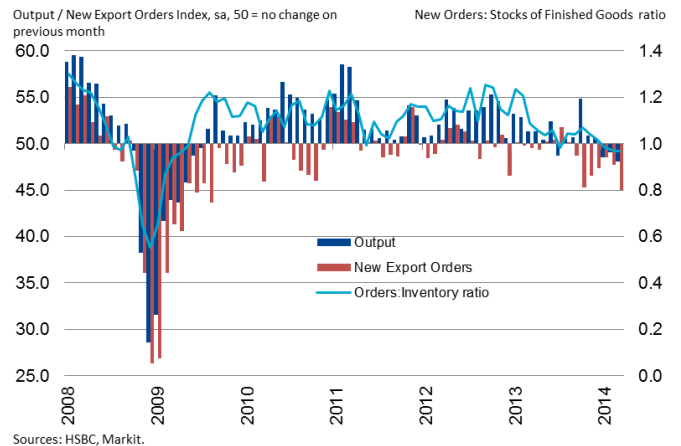
March survey data were collected 12-27 March.

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Manufacturing set to weaken further



Rouble weakness drives input prices up

