

# The NewsLine

May 5, 2015

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## RUSSIA

### Economy yet to hit bottom

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The rebound on the Russian financial markets over the past few weeks can hardly be explained by developments in the real economy. We believe the bottom has not yet been reached. This is also indicated by the purchasing managers' index for the manufacturing sector published today by Markit and HSBC. Overall output is likely to tumble by 4% in 2015.

Sentiment in the Russian economy remained very subdued in April as well. Although the purchasing managers' index (PMI) for the manufacturing sector edged up slightly by 0.8 points on the previous month, at 48.9 points it is still well below the expansion threshold of 50 points. Figures below that threshold signal a decline in economic activity. Particularly worrying is one sub-component of the index, namely "new orders". They recorded the steepest drop in almost six years. Together with the "hard" economic data available for the year so far, the picture is one of an ongoing downward trend in the economy. In the first quarter of 2015 real gross domestic product was down 2% on a year earlier. The monthly indicator for overall production plummeted by 3.4% in March alone. Private consumption and investment remain anemic. In the first three months of this year real wages were 8.4% down on a year earlier. By way of comparison: in 2009 as a whole, when the Russian economy contracted by almost 8% overall, real wages fell by a mere 2.7%. Gross fixed capital formation is also heading south, down in the first quarter by 6% on a year earlier. And the slide in the private sector is likely to have been much steeper, with the state endeavoring to offset the slump in private sector investment activity at least in part with major infrastructure projects among other things.

Given the weak performance of the economy, the marked rebound on the Russian financial markets seen in recent weeks is, at least at first glance, somewhat surprising. The ruble, for instance, has gained more than 30% against the US dollar since the end of January and the Moscow exchange has

# The NewsLine

May 5, 2015

also risen strongly. However, in our view this development does not signal an imminent economic turnaround. Taking into account today's PMI figures as well, we are sticking to our forecast of a 4% real drop in Russian economic output this year. Rather, we see the recent upward trend on the Russian financial markets at least partly as a technical reaction to the preceding correction: despite the recovery in the ruble against the US dollar, the Russian currency is still almost 35% below its mid-2014 level. Share prices on the Moscow exchange are also still well down on levels seen in the middle of 2014. An important factor behind the rebound on Russian financial markets is likely to have been the stabilization of the oil price. Although still well below its mid-2014 level, it has in the meantime picked up markedly from the multi-year low seen in January.

# The NewsLine

May 5, 2015

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