Monthly estimate of GDP Index

VEB flash estimate suggests that GDP decline continued in March 2015. GDP contracted by 0.4% month-on-month and was down by 2.9% on annual basis.

Month-on-month GDP change: slowdown continued

According to VEB estimate, seasonally adjusted GDP has been declining for three consecutive months. However, GDP decline notably moderated since February. GDP in March contracted by 0.4% after a decline by 1.5% in January.

The most important factors behind this downturn were deterioration in retail trade (-1.2%) and construction (-1.3%). By contrast, manufacturing and transport services made a positive contribution to GDP growth. Manufacturing marked the first month of expansion in 2015.

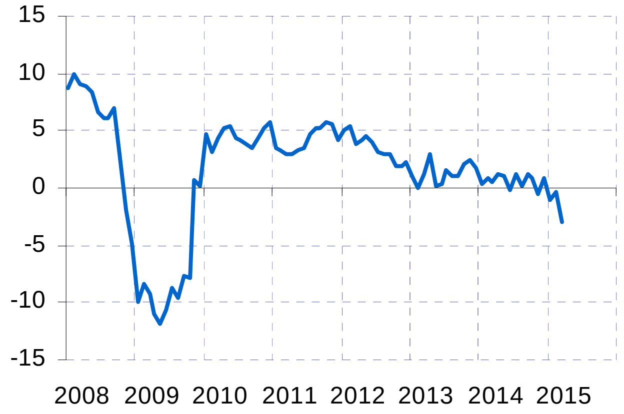
Year-on-year GDP change: fall of 2.9%

VEB estimate suggests that in March 2015 GDP decreased by 2.9% compared to the corresponding period of the previous year, after a decline of 0.3% in February 2015.

Deepening economic downturn was mainly attributable to deterioration in net taxes linked to a former spike in oil and oil product exports in February. Moreover, negative contribution of construction was greater and financial sector activity has slowed down. At the same time, manufacturing demonstrated a slower pace of contraction in March.

VEB GDP Index, January 1999 = 100, seasonally adjusted and adjusted by working days

VEB GDP Index, year-on-year growth, %



Comment by Andrei Klepach, Chief economist of VEB

In March there were certain signs of stabilisation on forex and financial markets. Net capital outflow decreased from 22 bln. in February to 3 bln in March. Rouble started to appreciate as well as inflation slowed. At this point however, we do not consider these trends sustainable. We believe that economy turnaround may be expected not earlier than in the second half of the year.

In March we observed a further decline in consumption activity. Real income has also been on the negative trend while savings have resumed strong growth. According to our estimate, net saving rate reached double digit numbers in March for the first time since the summer of the last year.

Investment figures were better than expected in Q1 with a slight month-on-month growth in March. However, we expect a further acceleration in investment decline in the coming months, taking into account a strong negative trend in construction and machinery sectors.

Quarterly GDP change: negative for the first time since 2009

According to VEB estimate, real GDP decreased by 1.5% year-on-year and by 1.8% month-on-month in the first quarter 2015.

The main factors behind the economic slump were a downturn in trade and manufacturing.

Main revisions of previous monthly GDP estimates

VEB has significantly revised upwards the estimate of GDP dynamics in February. Year-on-year GDP decline was reduced from -2.1% to -0.3%. Month-on-month GDP decline was revised to -0.4% from -0.6%.

The key factor behind the GDP upgrade was new data available from Custom Service, showing a significant increase in exports of oil and oil products. This increase has strongly outpaced preliminary data of MinEnergo that was used for the first GDP estimate.

In April 2015, Rosstat revised 2014 GDP growth figures. A particularly strong downward revision refers to the first quarter of 2014. This has smoothed the year-on-year GDP decline in the first months of 2015, because of a more favorable base effect. However, the revision also resulted in a stronger month-on-month GDP decline in January, -1.2% vs -1.5%.

VEB GDP Index

	Growth		Volume, bln. RUB
	Year-on-year, %	**Month-on-month, %, SA**	
December 2014	0,9	0,5	6633
January 2015	-1,0	-1,5	4872
February 2015	-0,3	-0,4	5714
March 2015	-2,9	-0,4	5837
Q1 2015	-1,5	-1,8	16423

Main principles and data sources

Monthly VEB GDP index is a leading indicator for quarterly GDP dynamics. Its estimation is based on the production method using available monthly data. Aggregation of GDP indices is done using average annual prices of the previous year.

Year-on-year change in GDP is estimated using Federal State Statistics Service's monthly data on changes in production of goods and services in major industries. Based on this data, we estimate indices of value added in the main industries.

Estimate of net taxes on products and imports is done using Federal State Statistics Service's data on production of excise goods, Ministry of Energy's preliminary data on the volume of exports of oil and gas, Customs Service's data on imports from non-CIS countries and VEB experts' assessment.

Month-on-month change in GDP adjusted for seasonal and calendar factors is estimated using an indirect method, i.e., the key components of GDP are seasonally adjusted and then are aggregated into the overall index. We additionally do seasonal adjustment using a direct method (by directly adjusting the GDP index).

In case of sizeable differences between the adjustments done using indirect and direct methods, the series are normalized by distributing the difference between the two series across adjusted elements.

Nominal GDP is estimated using assessment of the overall deflator index (year-on-year), which aggregates deflators of the main components of value added and net taxes on products and imports.

The calculations are based on Federal State Statistics Service's monthly data on the change in the value of shipment of own production goods, data on activities and own services in mining, manufacturing, production and supply of electricity, gas and water.

The main components of the deflator of net taxes on products are assessed using the dynamics of consumer prices, changes in the exchange rate, changes in the prices of excise goods and changes in world oil prices. The calculations are performed using an algorithm which is used to determine the value added volume indices of the main GDP components.