VEB GDP Index June2015

Monthly estimate of GDP Index

In June 2015the decline in GDP slowed down: GDP contracted by 4.5% year-on-year after a decline by 5.0% in May. In month-on-month terms, GDP continued to decline, with the reduction amounting to0.3%. In the second quarter GDP declined by 4.7% (year-on-year) after a decline of 2.2% in the first quarter.

Month-on-month GDP change: decline continued

According to VEB estimate, seasonally and calendar adjusted GDP has been declining for six consecutive months. In June GDP contracted by 0.3% after a decline of 0.5% in May and 0.8% in April.

Almost all main economic sectors demonstrated a negative trend: agriculture (-0.2%),mining (-0.2%), manufacturing (-0.1%), electricity, gas and water supply(-0.1%), construction (-0.6%) and retail trade (-0.5%). Transport (0.1%) and net taxes (0.1%) had a positive impact on GDP.

Year-on-year change: the decline in GDP slowed down to 4.5%

VEB estimate suggests that in June 2015 GDP decreased by 4.5% compared to the same period of the previous year, after a decline of 5.0% in May 2015 (the maximum year-on-year decline so far). The improvement in trend is mainly attributable to the calendar effect (there were two extra working days compared to June 2014), which primarily resulted in an improvement in manufacturing and construction. Also there was a significant improvement in the dynamics of taxes on products.

Overall, the decline in GDP in the first half of the year amounted to 3.5%, with the main negative input coming from the second quarter performance (-4.7%).

VEB GDP Index, January 1999 = 100, seasonally adjusted

VEB GDP Index, year-on-year,%

Comment by Andrei Klepach, Chief Economist of VEB

"A slight slowdown in year-on-year GDP fall in June was mainly related to a favorable calendar factor rather than a reversal of the negative trend. If the seasonal and calendar effects are excluded month on month GDP decline persisted. The tendency continues for six consecutive months and exceeds duration of recessions during the previous crises. At the same time the depth of the decline is significantly smaller. Obviously, the current GDP dynamics has a much smaller cyclical component, if compared to GDP fall in 1998 and 2009. This fact does not allow to expect a fast recovery in the second half of the year.

In June the decline in consumer demand has resumed again. Positive factors

associated with decreasing inflation and quite favorable labor market conditions do not yet outweigh the factors associated with decreasing retail credit and low consumer confidence. This has led to growth of precautionary savings. Net savings rate reached 13% in June, whereas last year it was in the range of 4-10% of disposable income.

The decline in capital investments that was observed in the first five months of the year, stopped in June. However, the trends in construction and capital goods production have remained negative. Credit markets conditions remain tight, and the annual credit growth continues to slow down.

According to our estimate, the fall in GDP increased in the second quarter, amounting to 4.7%, after a decline in the first quarter by 2.2%. In comparison to the previous quarter the decline continued, amounting to 1.9%. We estimate that the fall in GDP will be largely exhausted in the third quarter. This could happen mainly due to an end of decline in consumer demand. Favorable harvests may even bring about positive quarterly growth. However, the recovery will be restrained considerably."

GDP change in May 2015 has been revised

VEB has revised upwards the year-on-year GDP decline in May (from -5.4% to -5.0%) due to the fact that the data of the Federal customs service of Russia on oil exports and commodity imports was more positive than the preliminary estimate of VEB.

The month-on-month GDP decline slowed down slightly from -0.6% to -0.5%.

VEB GDP Index

	Growth		Volume, bln. RUB
	Year-on-year, %	Month-on-month, %, SA	
Q1 2015	-2.2	-2.3	16565
Q2 2015	-4.7	-1.9	18238
April 2015	-4.7	-0.8	6061
May 2015	-5.0	-0.5	6023
June 2015	-4.5	-0.3	6154

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.