

# Russia

GDP growth strengthened in Q2, but services faltered during August as heatwave threatened recovery in Q3

## Key findings

- Preliminary official figures showed strengthening recovery in Q2...
- ...as signalled in advance by PMI data for manufacturing and services.
- But services PMI for August signalled heatwave-induced fall in activity.

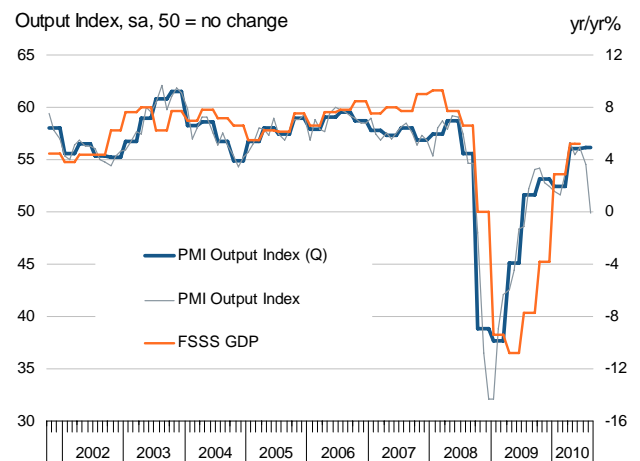
## Economy expanded 5.2% y-o-y in Q2

Preliminary figures from the Federal State Statistics Service (FSSS) on 11 August showed that Russian GDP rose by 5.2% compared with one year previously in Q2. That was the best performance since Q3 2008 and signalled that the recovery was broadly on track in the first half of 2010, following decline throughout 2009.

PMIs compiled by Markit for HSBC covering the Russian manufacturing and service sectors together account for around 49% of gross domestic product, and signalled in advance the stronger rate of economic growth. A composite Output Index covering manufacturing and services posted an average of 56.1 during Q2, the highest reading since Q2 2008. Historical analysis of the Composite Output Index suggests that the Q2 figure was consistent with an annual rate of GDP growth of 5.1%. So although the latest official rate of expansion was stronger than markets predicted, it was broadly in line with the trend signalled by the PMIs.

Since the series started in October 2001, the HSBC Russia Composite Output Index has a correlation of 0.80 with the year-on-year rate of change in official quarterly GDP. This improves to 0.92 when the PMI data are advanced by one quarter, highlighting the properties of the surveys as leading indicators of economic activity.

Chart 1: Composite Output Index vs GDP



## Heatwave threatens H2 prospects

There are concerns that the recent extreme weather conditions that have plagued the country, and Moscow in particular, will lead to slower growth in the second half of 2010. Although the manufacturing data did not indicate a substantial negative impact in August, this likely reflected the fact that many factories were shut anyway due to holidays. Adjusted for seasonal factors, PMI data signalled the slowest rise in manufacturing production in three months in August.

But responses to the services PMI for August certainly signalled that the weather had a substantial negative effect, with activity falling for the first time since July 2009. The headline seasonally adjusted Business Activity Index, a single-figure measure designed to track monthly changes in total Russian services activity, fell sharply to 47.0. That pointed to the fastest rate of contraction since May 2009.

Weighting together the two activity indices according to the relative shares of manufacturing and services of overall GDP, an overall stagnation in private sector activity was signalled in August. The Composite Output Index fell to 49.9, from 54.5 in July.

Based on regression analysis with historical data, the August Composite Output Index figure is consistent

with year-on-year economic growth almost stalling, at around 0.3%. The average reading for July and August is consistent with Q3 growth slowing to 2.2%.

September will likely see a rebound as the weather conditions ease, most notably in services. But in order for Q3 composite PMI data to signal GDP growth matching the official 5.2% pace seen in Q2, the Composite Index would need to rise to around 64.2 in September, which would be a series record high. So even if the September surveys show a rebound, economic growth is still likely to slow in Q3.

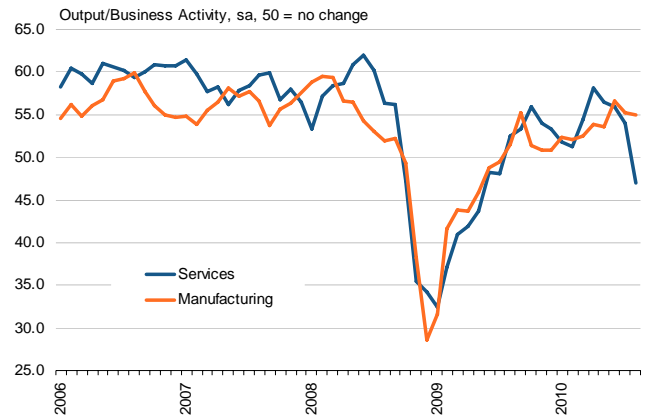
#### Forthcoming release dates:

1 October: HSBC Russia Manufacturing PMI (Sep)

5 October: HSBC Russia Services PMI (Sep)

5 October: HSBC Russia Composite PMI (Sep)

**Chart 2: Services vs manufacturing**



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