

Monthly estimate of GDP Index

VEB flash estimate suggests that GDP continued to decline in May 2015: it contracted by 0.6% month-on-month and was down by 5.4% year-on-year (after a decline by 4.8% in April).

Month-on-month GDP change: Year-on-year GDP contraction slowdown continued reached 5.4%

According to VEB estimate, seasonally adjusted GDP has been declining for five consecutive months. GDP in May contracted by 0.6% after a decline by 0.8% in April. Over the last 5 months, GDP slumped by 4.4%.

The main factors behind this downturn were a decline in manufacturing (-0.7%), mining (-0.4%), electricity (-1.7%), construction (-3.5%) and services (-1.0%). By contrast, the negative contribution of retail trade came to zero in May. Furthermore, agriculture has continued to make a positive impact on GDP.

VEB estimate suggests that in April 2015 GDP decreased by 5.4% compared to the corresponding period of the previous year, after a decline of 4.8% in April 2015. Over the last five months, GDP declined by 3.4%.

The deepening of the current economic downturn has been mainly attributable to deterioration in industrial production, construction, transportation, and financial services.

VEB GDP Index, January 1999 = 100, seasonally adjusted



VEB GDP Index, year-on-year, %



Comment by Andrei Klepach, Chief economist of VEB

“The economy has demonstrated sustainable negative trend. GDP has been declining for five consecutive months at a pace of 0.6-0.8% per month. However, the main factors behind this economic decline are changing.

Investment demand is weakening at an increasing rate, pushing down construction and production of investment goods.

Over the past two months, a decline in machine-building and construction materials industries as well as imported equipment rapidly accelerated. Fall in construction reached double-digit numbers and became the main factor behind the GDP slump in May.

At the same time, the weakening of consumption that lead to an output drop in the first months of 2015 has been almost exhausted. In May, retail trade after declining for four consecutive months stabilised at the April level. A slowdown in inflation has to some extent supported purchasing power of households. However, growth of seasonally adjusted unemployment rate resumed in May, which can restrain consumer sentiment in the coming months.

Another notable factor is the exhaustion of growth in oil product export, which supported GDP in the first quarter. At the same time, it is expected that demand for natural gas exported by Russia will

increase in the coming months due to a strong decline in prices. Taking into account output dynamics in April-May, we estimate that GDP will contract by more than 5% in the second quarter.

According to our estimate, net capital outflows decreased from 13 bln. in April to 6 bln. in May. Arguably, this is due to both ruble appreciation and lower repayments of the external debt.

Yet the two factors are temporary, so net capital outflow is likely to increase in the future.

GDP change in first quarter has been revised in May 2015

The first GDP estimate for the first quarter 2015, published by Rosstat, appeared to be lower compared to its flash estimate (-2.2% vs. -1.9%). Therefore, VEB GDP Index has been revised to comply with the official Rosstat data on the first quarter.

The VEB revision resulted in a stronger year-on-year GDP decline in January (from -1.4% to -1.8%), February (from -0.7% to -1.1%) and March (from -3.3% to -3.7%).

The quarter-on-quarter seasonally adjusted GDP has been revised downwards from -2.1% to -2.3%.

VEB GDP Index

	Growth		Volume, bln. RUB
	Year-on-year, %	Month-on-month, %, SA	
January 2015	-1,8	-1,7	4921
February 2015	-1,1	-0,8	5746
March 2015	-3,7	-0,6	5897
Q1 2015	-2,2	-2,3	16565
April 2015	-4,8	-0,8	6058
May 2015	-5,4	-0,6	6032

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.