

## Russia: PMIs flag no breakthrough in economic trends

The PMI survey assumes the central bank is likely to stay focused on policy easing



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### PMI indicators eased in March

Today we received the final bits from the monthly PMI surveys for March revealing that the composite PMI index slipped from 55.2 to 53.2.

In three-month moving average terms, this puts the index at 54.4 vs 54.1 in 3Q17 and 55.2 in 4Q17. So, based on the PMI survey, the economic activity in 1Q18 seems to have been somewhat stable when compared to the last three to six months.

When looking at the breakdown, PMI manufacturing firmed up a bit from 50.2 to 50.6 on a somewhat weaker growth in output and new domestic orders, still strong export orders, lower employment and rising price pressures, although still low in the context of series history. On the services PMI side, the drop was more pronounced from 56.5 to 53.7 with the same reported reasons for weaker growth in output, new orders and employment under a bit stronger price pressures.

We note other available indicators like the Rosstat manufacturing survey also detected a

strengthening of business activity in March vs February levels, yet staying below the 3Q-4Q17.

## PMI composite vs GDP growth



### What does the PMI weakness mean?

If we look at the actual performance of the composite PMI index vs GDP growth, we can see that the current levels seem consistent with the GDP growth within the 1-1.5% range. The recent 2017 GDP data suggested a sharp slowdown of growth in 4Q17 to 0.9% YoY from the upwardly revised 2.2% in 3Q17. However, we still believe the official data has been affected by technical issues of proper accounting of the industrial sector output, so the economy remained growing at rates close to 1-1.5%.

The weaker PMI indicators confirm the thesis of remaining potential for the monetary policy easing to support the economy, so we stick to our current forecast of the central bank cutting the key rate by 25bp at each of the meetings in April and June. But then taking a bit more balanced/cautious approach due to the expected inflation acceleration and bringing the policy rate to 6.25% by the end of 2017.

Our mid-term view is for inflation staying below the 4% mark in 2018-19, so the policy rate will likely be moving down not only in 2018 but also in 2019 to 5.75%.

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