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Russia's Industrial Forecast Lowered as Strengthening Ruble Adds to Woes

By The Moscow Times

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Manufacturing fell steeply due to stagnating domestic demand, a weakening construction market and falling retail sales, the report said.

Russia's Economic Development Ministry lowered its yearly industrial output forecast Friday as April's data showed a 4.5 percent slump year-on-year and the ruble's strengthening threatened export sales.

According to the report, the fall in Russia's industrial output will "not exceed 1.3-1.6 percent" for the year. This is a revision down from the ministry's April forecast of a maximum fall of 1.3 percent, news agency Interfax reported Friday.

Manufacturing declines led April's fall, dropping 7.2 percent year-on-year. Raw material output also slumped but rising oil exports slowed the fall to a modest 0.8 percent. Manufacturing fell steeply due to stagnating domestic demand, a weakening construction market and falling retail sales, the report said.

The Economic Development Ministry said that the Central Bank's anticipated lowering of the key interest rate, which could encourage investment by making loans more affordable, will likely help boost industrial output.

However, a further strengthening of the ruble is expected to hit manufacturing hard. The ruble's weakness had previously been one of the few bright spots in manufacturing, as it makes Russian goods more price-competitive abroad.

"In case of the national currency's further strengthening, in May-June we can expect a strengthening of the negative dynamic ... above all in manufacturing industries," the report said.

The ruble fell 40 percent against the U.S. dollar last year as the oil price dropped and the West imposed sanctions on Moscow over its role in the Ukraine crisis. It has since recovered more than 30 percent of its value against the dollar since the beginning of February as the oil price rises and a shaky peace deal in Ukraine continues to hold.

Russia's economy is expected to contract more than 3 percent this year as Western sanctions and low oil prices squeeze investment. The economy shrank 4.3 percent year-on-year in April, according to a report issued Wednesday by state development bank VEB. The fall was led by a 2 percent drop in manufacturing and a 1.5 percent drop in retail.

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