

# Economic Insight

## What economic activity indicators reveal

In February's monthly statistics on Ukraine's key economic sectors published this week, all sectors, including agriculture, declined year-on-year on the basis of raw data. However, upon closer analysis, taking inflation and seasonality into account, results were far less discomfoting. It is too early to signal a bottom, though.

**Severely negative year-on-year raw statistical data for January-February showed that every sector declined.** Jan-Feb statistical data showed the following: the agricultural production index fell 3.6%; retail sales dropped 22.6%; construction declined 32.0%; industrial production was down 21.7%; transport turnover of cargos and passengers respectively fell 23.6% and 19.4%.

**Month-on-month price- and seasonal-adjusted data reveal that the contraction appears to be slowing dramatically.** Adjusting for inflation and seasonality, three sectors increased month-on-month (see top chart on the right): agriculture grew 0.3%, retail sales rose 5%, and construction increased over 2.5%. Meanwhile, industrial production and turnover in cargo and passenger transportation declined, affected the by war in Donbas and the annexation of Crimea, dampening the composite index of activity to increase only 0.7% in February from January 2015.

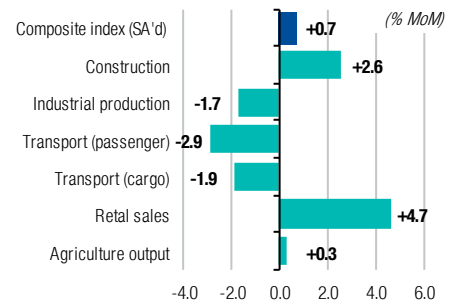
**Signalling a bottom is premature.** While economic activity in December-February versus the preceding three months (Sep-Nov '14) declined 2.2% in the composite index (see bottom chart on the right) and year-on-year activity in February 2015 versus February 2014 was down by nearly 17% (see middle chart).

**New industrial orders continue to decline.** The available data on new industrial orders (through January 2015, see Chart 7-Chart 8 on p. 3) shows that domestic and foreign orders are tentative and trending lower. The devalued hryvnia has not yet translated into a visible increase in foreign orders.

**Fixed investments are weak.** According to recently published data on investments for 4Q 2014, investment activity hit a nine year record quarterly low. Businesses rely more on internal funding because of the current banking crisis. Investment activity has poor momentum in 2015 (see Chart 1-Chart 4 next page).

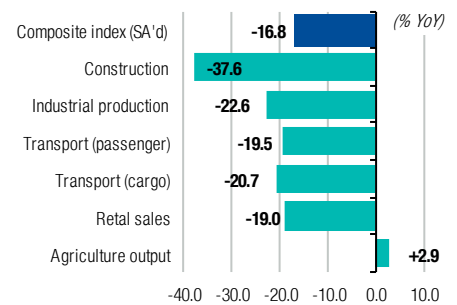
**FRIDAY, 20 MARCH 2015**

**Key sectors of Ukraine economy in February to January 2015 (% MoM)**  
Seasonally adjusted data



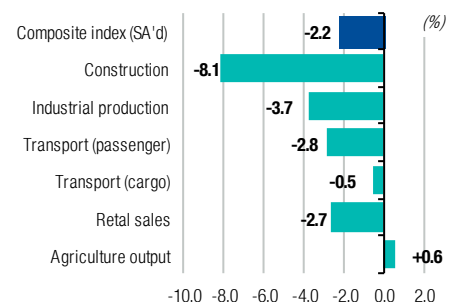
Source: State Statistics Service of Ukraine, ICU.

**Key sectors of Ukraine economy in February 2015 to February 2014 (% YoY)**  
Seasonally adjusted data



Source: State Statistics Service of Ukraine, ICU.

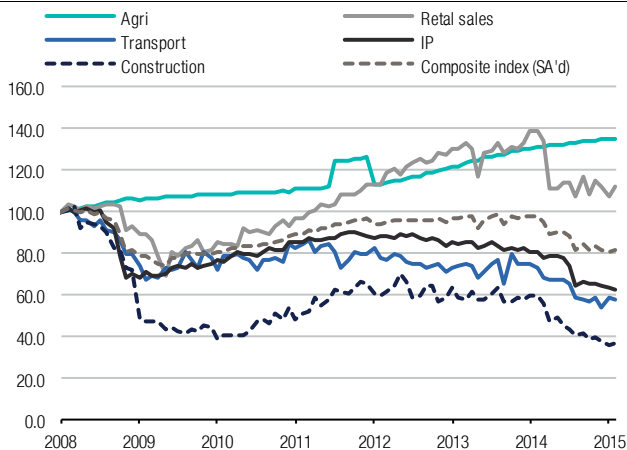
**Key sectors of Ukraine economy in three months through Mar-15 (% QoQ\*)**  
Seasonally adjusted data



\* Last three months to March 2015 versus three months through November 2014.  
Source: State Statistics Service of Ukraine, ICU.

**Chart 1. Ukraine's key economic sectors (SA'd data)**

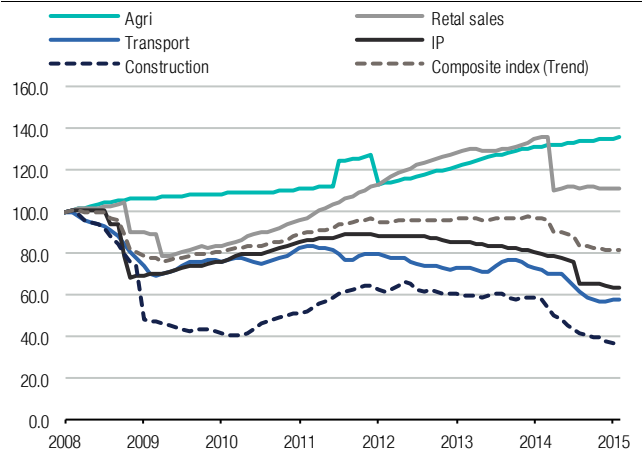
Rebased at 100 points as of January 2008. History through February 2015



Source: State Statistics Service of Ukraine, ICU.

**Chart 2. Ukraine's key economic sectors (Trend)**

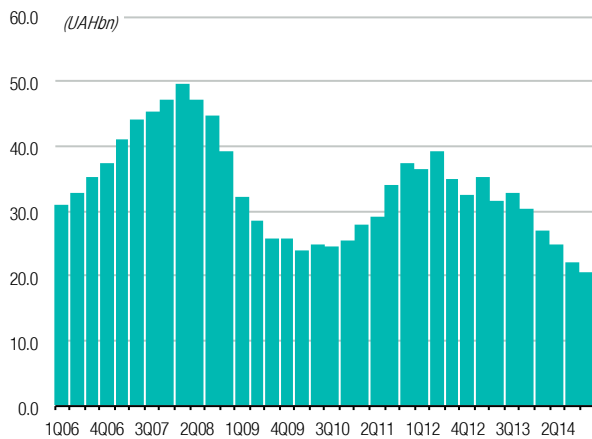
Rebased at 100 points as of January 2008. History through February 2015



Source: State Statistics Service of Ukraine, ICU.

**Chart 3. Quarterly volume of fixed investments (UAHbn)**

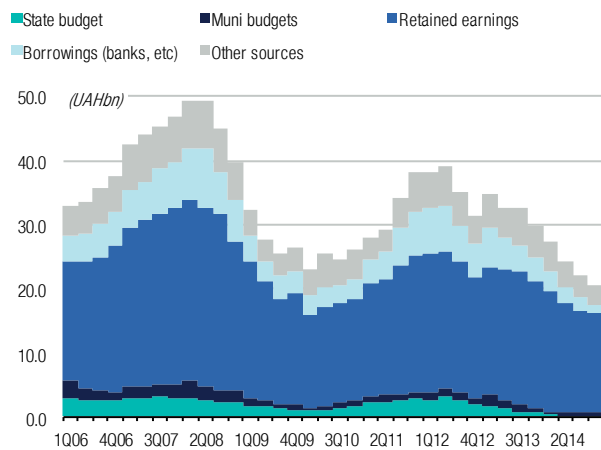
Seasonally adjusted data at constant prices as of December 2005. History from 1Q 2006 through 4Q 2014



Source: State Statistics Service of Ukraine, ICU.

**Chart 4. Fixed investments by source of financing (UAHbn)**

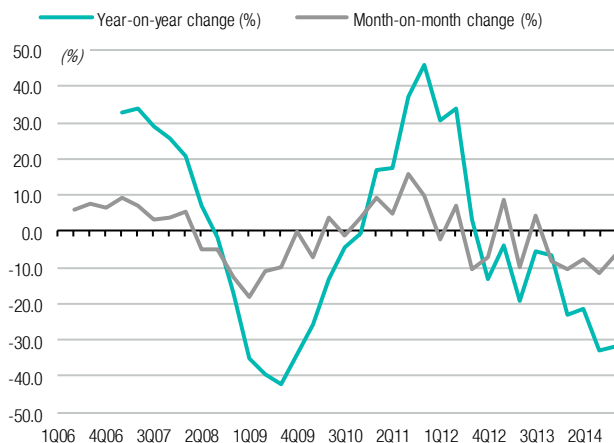
Seasonally adjusted data at constant prices as of December 2005. History from 1Q 2006 through 4Q 2014



Source: State Statistics Service of Ukraine, ICU.

**Chart 5. Growth rates of fixed investments (%)**

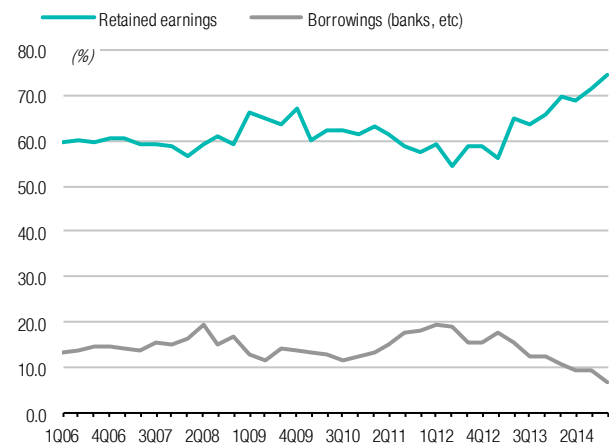
Seasonally adjusted data at constant prices as of December 2005. History from 1Q 2006 through 4Q 2014



Source: State Statistics Service of Ukraine, ICU.

**Chart 6. Share of bank lending and retained earnings as source of financing of fixed investments (% of total)**

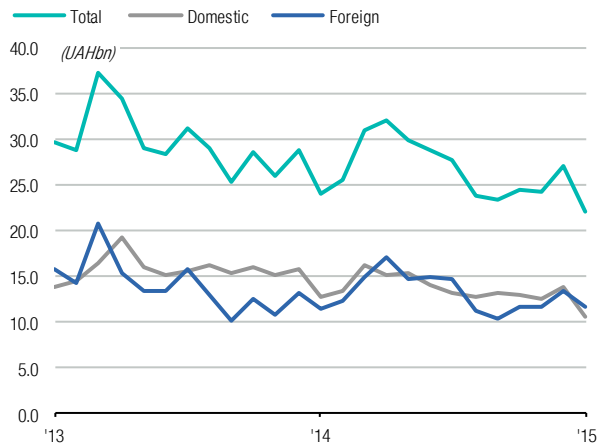
Seasonally adjusted data at constant prices as of December 2005. History from 1Q of 2006 through 4Q 2014



Source: State Statistics Service of Ukraine, ICU.

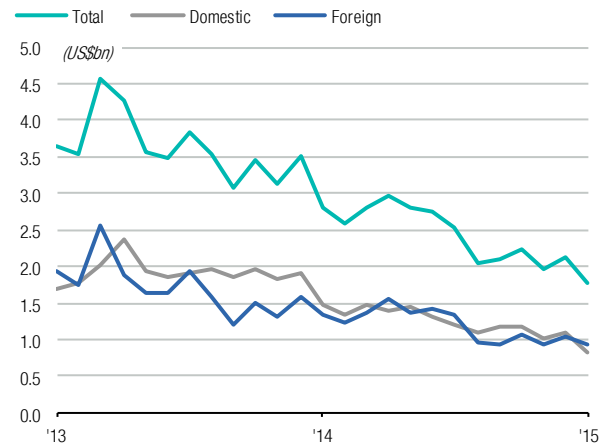
**Chart 7. New industrial orders, monthly volumes at constant prices as of December 2012 (left) and in USD equivalent (right)**

History from January 2013 through January 2015



Source: State Statistics Service of Ukraine, ICU.

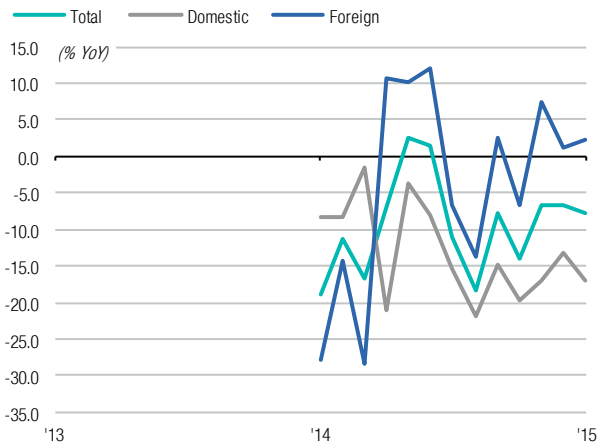
History from January 2013 through January 2015



Source: State Statistics Service of Ukraine, ICU.

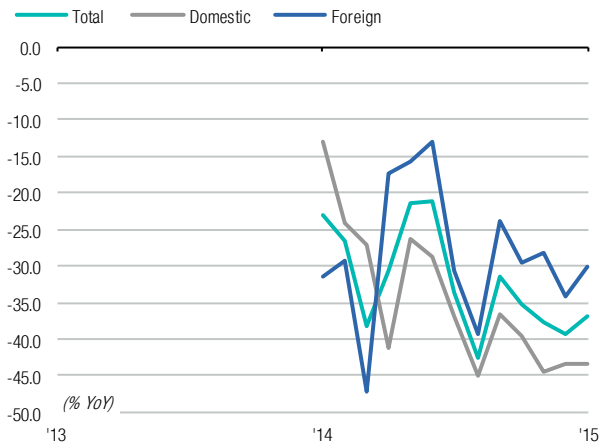
**Chart 8. Year-on-year change of monthly volumes of new industrial orders: at constant prices as of December 2012 (left) and in USD equivalent (right)**

History from January 2013 through January 2015



Source: State Statistics Service of Ukraine, ICU.

History from January 2013 through January 2015



Source: State Statistics Service of Ukraine, ICU.

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**Buy:** Forecasted 12-month total return greater than 20%

**Hold:** Forecasted 12-month total return 0% to 20%

**Sell:** Forecasted 12-month total return less than 0%

Note: total return is share price appreciation to a target price in relative terms plus forecasted dividend yield.

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**Sell:** Forecasted 12-month total return significantly less than that of relevant benchmark



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