



CONCORDE CAPITAL

Industrial production

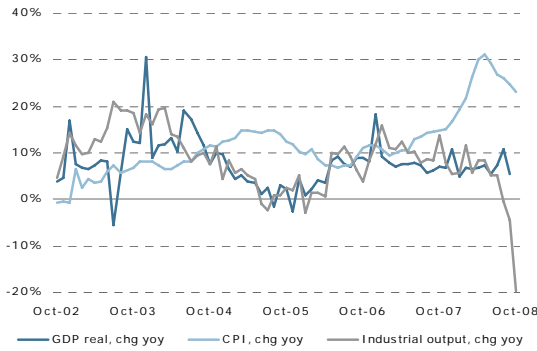
Negative outlook has companies cutting output

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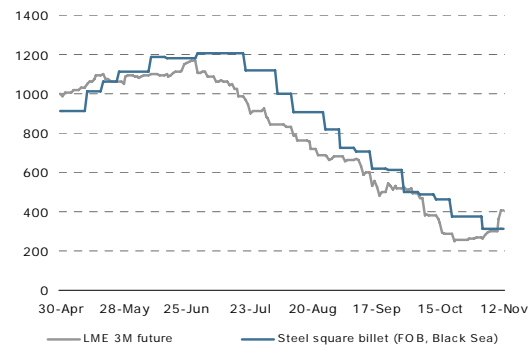
- Yesterday the State Statistics Committee reported that growth in industrial production slowed to 2.2% yoy in 10M08, falling 19.8% yoy in the month of October
- We expect the contraction to extend until end-2008 and forecast industrial output to drop 3.4% yoy in 2008

Business cycle indicators



Source: State Statistics Committee

Steel prices, USD/mt



Source: Bloomberg

Industrial output by sector in October

	chg mom	chg yoy	contrib.*
Mining	-6.7%	-10.0%	-0.9%
Processing industry	-7.7%	-21.1%	-17.7%
Food	19.0%	-10.9%	-1.6%
Light industry	1.6%	-6.3%	-0.1%
Wood industry	-1.9%	2.8%	0.0%
Pulp & paper	-2.9%	1.3%	0.0%
Coke & oil products	-26.5%	-43.9%	-3.7%
Chemicals & petrochemicals	-4.7%	-19.2%	-1.3%
Other non-metal products	-5.0%	-6.8%	-0.3%
Metallurgy	-20.5%	-35.6%	-9.1%
Machine building	-13.9%	-11.2%	-1.7%
Utilities	-6.6%	-14.4%	-1.2%
Industrial output	-7.6%	-19.8%	-19.8%

Source: State Statistics Committee, Concorde Capital calculations
* contribution of a sector to the overall yoy change

In October, as it was in the last two months, the key contributor to the decline was metallurgy. Due to the lack of both local and global demand and below-cost steel prices, metallurgy enterprises have been forced to cut output.

However, what we saw in October differs somewhat from previous months: the data revealed slowing activity in almost every industry, aside from food, which surged 19% mom – typical for October, when crop processing is at its peak. The oil processing industry's continuing decline was exacerbated in October by scheduled repairs at the Lysychansk Refinery.

We anticipate that through yearend, industrial output will continue to contract and forecast a 3.4% yoy decline in 2008. On the other hand, it looks like steel prices are showing their first signs of recovery, although the outlook for the sector is still uncertain.

We wait for data on GDP in October later this week to see how non-industrial sectors are fairing. We expect to downgrade our forecast of real GDP growth in 2008, currently at 5.3% yoy.

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