



# Economics Group

**Jay H. Bryson, Global Economist**  
[jay.bryson@wellsfargo.com](mailto:jay.bryson@wellsfargo.com) • (704) 410-3274  
**E. Harry Pershing, Economic Analyst**  
[edward.h.pershing@wellsfargo.com](mailto:edward.h.pershing@wellsfargo.com) • (704) 410-3034

## Russian Economy Continues to Gain Momentum in Q1 2017

*Russian GDP growth has posted back-to-back positive quarterly gains for the first time since the second half of 2014. We look for GDP growth to remain positive in coming quarters as the economy gains traction.*

### Recession in the Rearview

Economic data released this morning showed that Russian GDP in Q1 expanded 0.5 percent from a year ago. The headline figure bested the consensus expectation which called for more modest 0.4 percent growth. This print comes at the heels of 0.3 percent growth in Q4 2016 and marks consecutive quarters of positive GDP growth, a feat not achieved since Q3 and Q4 of 2014. Prior to Q4 2016, Russia's GDP growth was negative for eight consecutive quarters. We expect Russian GDP growth to remain positive in the near term and to expand 1.3 percent and 2.0 percent in 2017 and 2018, respectively.

Although a breakdown of the GDP data into its underlying demand components is not available at this time, monthly data can provide some color on the stabilizing Russian economy. For instance, Russia's trade balance in March grew to \$12.6 billion from February's \$10.2 billion as both export and import values bested consensus forecast expectations. Relatively high oil prices in Q1, compared to the previous quarter, certainly helped boost the total value of Russian exports. Moreover, real retail sales continue to show signs of improvement. In March real sales contracted just 0.4 percent, the smallest monthly contraction since December 2014. Likewise, industrial production is showing strength, firming 0.8 percent in March, from a year-ago, compared to February's -2.7 percent contraction.

### Inflation Implications

Inflationary pressures in Russia, as measured by the CPI, continue to subside. CPI inflation fell to 4.1 percent in April, its lowest rate of growth since May 2012. The core inflation index has followed suit, expanding just 4.1 percent in April, the lowest inflation rate since the index began in 2003. Lessening price pressures should, in turn, help boost real wage growth, which grew 1.5 percent in March and have now increased for eight consecutive months. In the face of waning inflationary pressures, the central bank has lowered its main policy rate from a high of 17.00 percent in early 2015 to 9.25 percent today. Falling interest rates in an environment with relatively stable prices should support investment spending and overall growth, everything else equal.

The Russian ruble has demonstrated strength at the start of 2017, which should not come as a surprise given the rebound in oil prices. Because oil is Russia's most important export, the value of the ruble closely traces the price of oil. Nonetheless, against the backdrop of a Federal Reserve, which is expected to hike rates two more times this year, and a likely accommodative Russian central bank, our currency strategy team expects the ruble to weaken modestly against the dollar.



## Wells Fargo Securities Economics Group

Diane Schumaker-Krieg	Global Head of Research, Economics & Strategy	(704) 410-1801 (212) 214-5070	diane.schumaker@wellsfargo.com
John E. Silvia, Ph.D.	Chief Economist	(704) 410-3275	john.silvia@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@wellsfargo.com
Jay H. Bryson, Ph.D.	Global Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Sam Bullard	Senior Economist	(704) 410-3280	sam.bullard@wellsfargo.com
Nick Bennenbroek	Currency Strategist	(212) 214-5636	nicholas.bennenbroek@wellsfargo.com
Anika R. Khan	Senior Economist	(212) 214-8543	anika.khan@wellsfargo.com
Eugenio J. Alemán, Ph.D.	Senior Economist	(704) 410-3273	eugenio.j.aleman@wellsfargo.com
Azhar Iqbal	Econometrician	(704) 410-3270	azhar.iqbal@wellsfargo.com
Tim Quinlan	Senior Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Eric Viloría, CFA	Currency Strategist	(212) 214-5637	eric.viloria@wellsfargo.com
Sarah House	Economist	(704) 410-3282	sarah.house@wellsfargo.com
Michael A. Brown	Economist	(704) 410-3278	michael.a.brown@wellsfargo.com
Jamie Feik	Economist	(704) 410-3291	jamie.feik@wellsfargo.com
Erik Nelson	Currency Strategist	(212) 214-5652	erik.f.nelson@wellsfargo.com
Misa Batcheller	Economic Analyst	(704) 410-3060	misa.n.batcheller@wellsfargo.com
Michael Pugliese	Economic Analyst	(704) 410-3156	michael.d.pugliese@wellsfargo.com
Julianne Causey	Economic Analyst	(704) 410-3281	julianne.causey@wellsfargo.com
E. Harry Pershing	Economic Analyst	(704) 410-3034	edward.h.pershing@wellsfargo.com
Donna LaFleur	Executive Assistant	(704) 410-3279	donna.lafleur@wellsfargo.com
Dawne Howes	Administrative Assistant	(704) 410-3272	dawne.howes@wellsfargo.com

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