April 04, 2016

Economics Group

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Russian GDP Growth Turns Positive in Q4

After eight consecutive quarters of negative GDP growth, Russian GDP grew 0.3 percent in Q4 from a year-ago. The topline figure was notably boosted by net exports, a trend we look to continue.

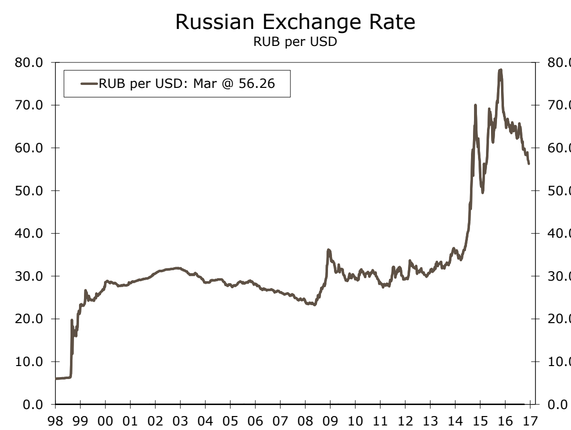
Finally Emerging From Recession

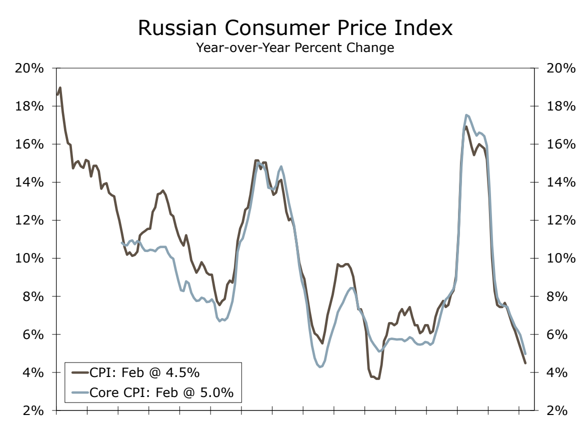
Recently released data reveal that the Russian economy expanded 0.3 percent in Q4-2016, snapping a two year streak in which GDP growth was negative every quarter. The reading was in line with consensus expectations. Examining the trends in the underlying GDP components suggest that Russia's economy has bottomed out and should return to positive GDP growth through 2017 and 2018. Personal consumption was less of a drag in Q4, slicing off just 1.6 percentage points, the lowest amount subtracted in the previous eight quarters. Inflationary pressures likely took a big bite out of real disposable income, which hampers growth in personal consumption. Likewise, investment spending dragged down GDP growth just 0.1 percentage points, after averaging a -1.1 percentage point contribution the previous eight quarters.

Net exports, on the other hand, boosted the headline figure 1.0 percentage points. While exports are growing at a solid pace, increasing 3.7 percent on the quarter, the contribution of trade to GDP is largely a function of Russia's weak import sector. Imports contracted 25.8 percent and 3.8 percent in 2015 and 2016, respectively. Although we expect import growth to return to positive territory in Q2-2017, we also expect net exports to continue to add to topline growth.

The prolonged softness in the import sector can partially be explained by the weakness of the Russian ruble, which is down roughly 60 percent against the dollar since mid-2014. The value of the Russian ruble closely traces the price of oil, one of Russia's most important exports. Therefore it is no surprise that as the price of oil fell in 2014 the ruble depreciated sharply. However, the price of oil is showing signs of stability and the ruble is following suite, which should help rein in inflation. Inflationary pressures skyrocketed in 2015 and 2016, and are now slowly subsiding. The rapid rise in inflation, as shown by consumer price index graph (bottom), hampered growth in consumers' real disposable income, which weighed on real consumer spending. We expect the Russian CPI to rise 4.4 percent in 2017 and 4.5 percent in 2018.

As inflation becomes less of a problem for the Russian consumer, the central bank may begin to ease policy going forward. 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. Reducing interest rates in an environment with relatively stable prices could help spur some much needed business investment. We expect Russian GDP to grow 1.4 percent in 2017 and 2.1 percent in 2018.





Source: IHS Global Insight and Wells Fargo Securities

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