



# 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 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.*

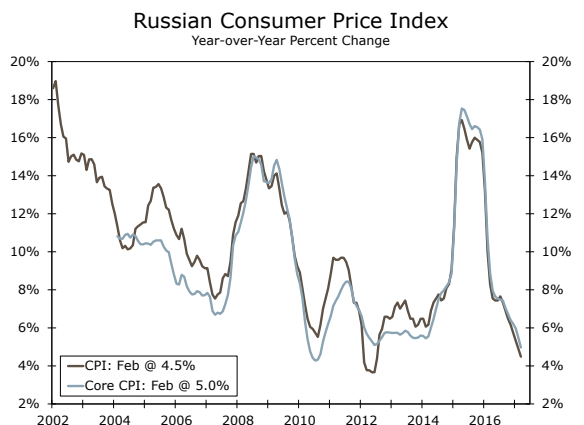
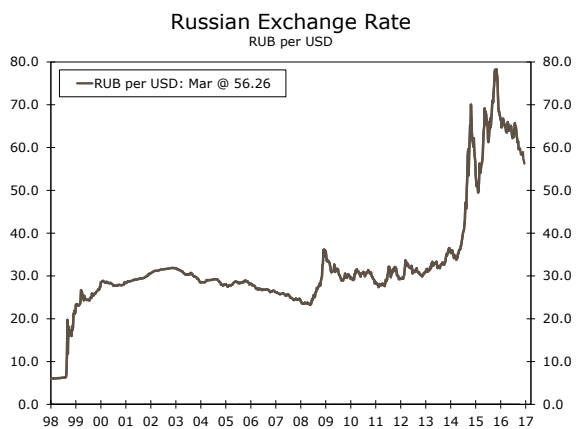
### Finally Emerging From Recession

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.



## 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

Wells Fargo Securities Economics Group publications are produced by Wells Fargo Securities, LLC, a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission, the Financial Industry Regulatory Authority, and the Securities Investor Protection Corp. Wells Fargo Securities, LLC, distributes these publications directly and through subsidiaries including, but not limited to, Wells Fargo & Company, Wells Fargo Bank N.A., Wells Fargo Advisors, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Asia Limited and Wells Fargo Securities (Japan) Co. Limited. Wells Fargo Securities, LLC, is registered with the Commodities Futures Trading Commission as a futures commission merchant and is a member in good standing of the National Futures Association. Wells Fargo Bank, N.A. is registered with the Commodities Futures Trading Commission as a swap dealer and is a member in good standing of the National Futures Association. Wells Fargo Securities, LLC, and Wells Fargo Bank, N.A. are generally engaged in the trading of futures and derivative products, any of which may be discussed within this publication. Wells Fargo Securities, LLC does not compensate its research analysts based on specific investment banking transactions. Wells Fargo Securities, LLC's research analysts receive compensation that is based upon and impacted by the overall profitability and revenue of the firm which includes, but is not limited to investment banking revenue. The information and opinions herein are for general information use only. Wells Fargo Securities, LLC does not guarantee their accuracy or completeness, nor does Wells Fargo Securities, LLC assume any liability for any loss that may result from the reliance by any person upon any such information or opinions. Such information and opinions are subject to change without notice, are for general information only and are not intended as an offer or solicitation with respect to the purchase or sales of any security or as personalized investment advice. Wells Fargo Securities, LLC is a separate legal entity and distinct from affiliated banks and is a wholly owned subsidiary of Wells Fargo & Company © 2017 Wells Fargo Securities, LLC.

### Important Information for Non-U.S. Recipients

For recipients in the EEA, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority. The content of this report has been approved by WFSIL a regulated person under the Act. For purposes of the U.K. Financial Conduct Authority's rules, this report constitutes impartial investment research. WFSIL does not deal with retail clients as defined in the Markets in Financial Instruments Directive 2007. The FCA rules made under the Financial Services and Markets Act 2000 for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. This report is not intended for, and should not be relied upon by, retail clients. This document and any other materials accompanying this document (collectively, the "Materials") are provided for general informational purposes only.

SECURITIES: NOT FDIC-INSURED/NOT BANK-GUARANTEED/MAY LOSE VALUE

WELLS  
FARGO

SECURITIES