

Economics Group

Jay H. Bryson, Global Economist

jay.bryson@wellsfargo.com • (704) 410-3274

E. Harry Pershing, Economic Analyst

edward.h.pershing@wellsfargo.com • (704) 410-3034

Russian Q3 GDP: Continuing the Climb from Deep Recession

Real GDP in Russia fell on a year-ago basis in Q3, but the rate of contraction was not as deep as most analysts had expected. We look for GDP growth to turn positive again in coming quarters.

Economic Outturn Suggests Future Growth not Far Ahead

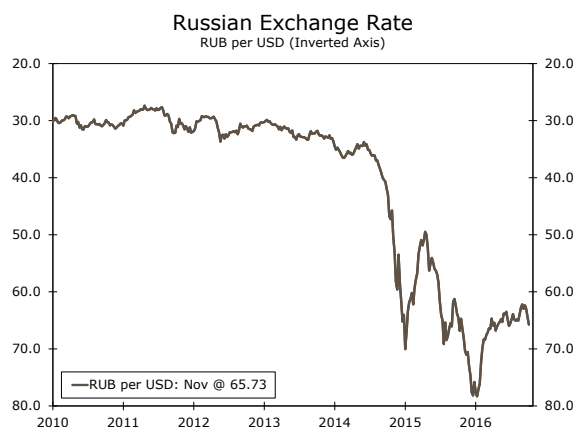
Economic data released this morning showed that Russian GDP in Q3 contracted 0.4 percent from a year ago. However, the reading was less negative than analysts had expected and provides further evidence that the Russian economy is bottoming following its deep recession over the past two years. We look for the year-over-year rate of real GDP growth in Russia to turn positive again in the current quarter and maintain positive growth throughout 2017. 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 September grew to \$7.4 billion from August's \$4.9 billion as both export and import values bested consensus forecast expectations. Relatively high oil prices in Q3, compared to the previous quarter, certainly helped boost the total value of Russian exports.

Taming the Inflationary Beast

As inflationary pressures continue to abate, real wages should strengthen further into positive territory. Real wages, which only recently emerged from negative year-over-year growth rates, are beginning to show signs of stability. As inflation has come down, interest rates have followed suit, which in turn should support investment spending and overall growth, everything else equal. The central bank has slashed its main policy rate from a high of 17.00 percent in early 2015 to 10.50 percent today. Likewise, real retail consumer sales are showing signs of bottoming, an encouraging sign from the consumer.

However, despite signs that point to sunny days, currency concerns pose risks that could impede real Russian growth. For instance, although the Russian ruble has shown signs of stability over the past several quarters, the currency has experienced some recent weakness, primarily a result of the continued strength of the dollar across the board. Further weakness of the ruble could stoke inflationary pressures again, which could weigh on real wage gains. If inflationary pressures return as a result of a weakening ruble, the central bank may adjust its policy and raise rates – certainly not an encouraging scenario for business investment.

Despite the potential for renewed ruble weakness and inflationary concerns, we look for the Russian economy to recover in coming quarters. That said, growth rates of around 1 and 2 percent that we project for 2017 are far from the 7 and 8 percent rates that characterized the middle years of the past decade. With depressed energy prices today, it is difficult to imagine a return to such lofty growth.



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.viloría@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 Analyst	(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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