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Economics Group

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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

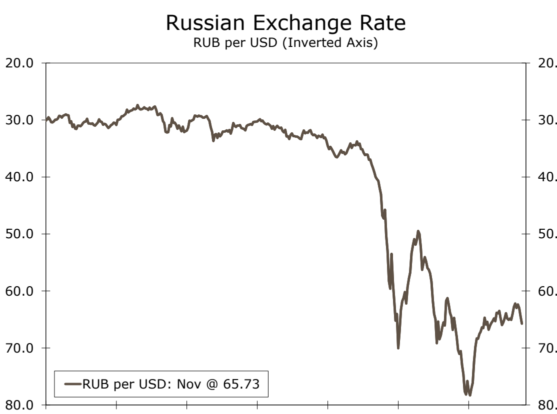
Economic data released this morning showed that Russian GDP in Q3 contracted 0.4 percent from a year ago. However, the reading was less negative than analysts had expected and provides further evidence that the Russian economy is bottoming following its deep recession over the past two years. We look 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.



Source: IHS Global Insight and Wells Fargo Securities

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