April 02, 2018

Economics Group

Jay H. Bryson, Global Economist
jay.bryson@wellsfargo.com • (704) 410-3274

Real GDP Growth in Russia Downshifted in Q4-2017

Despite the slowdown in the fourth quarter, we look for the economic recovery in Russia to remain intact. That said, Russia clearly is not going back to super-charged growth rates anytime soon.

Deceleration in Investment Leads to Slower GDP Growth

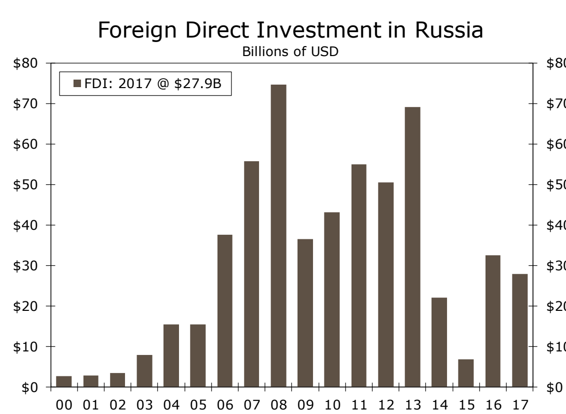
Data released this morning showed that real GDP in Russia grew only 0.9 percent on a year-ago basis in Q4-2017 (top chart), which was much weaker than the consensus forecast had anticipated. Upward revisions to previous quarters, however, brought the annual GDP growth rate up to 1.5 percent, which matched the consensus forecast. The annual growth rate was the strongest outturn since 2013, although it is lackluster relative to the growth rates that the Russian economy achieved in the years leading up to the global financial crisis and in its immediate aftermath.

A breakdown of real GDP into its underlying demand components showed that growth in household consumption expenditures remained resilient at a year-over-year rate of 4.3 percent in Q4, marginally higher than the 4.2 percent rate posted in Q3. But investment spending decelerated appreciably in the fourth quarter as the year-over-year growth rate slowed to 3.4 percent from 4.0 percent during the previous quarter. Inventory building also appears to have weighed on overall GDP growth in the fourth quarter.

The Russian ruble nosedived in 2014-2016 due to the one-two punch of western sanctions following Russia's annexation of Crimea and the collapse in oil prices. This sharp depreciation of the currency caused CPI inflation to soar (middle chart). But, the combination of currency stabilization over the past two years, and sluggish GDP growth, has caused inflation to recede to only 2.2 percent at present, the lowest rate since the Soviet Union disintegrated in the early 1990s. Consequently, the Central Bank of the Russian Federation has been in rate-cutting mode over the past three years, and most analysts look for it to ease policy further in coming quarters.

Despite the slowdown in the overall rate of real GDP growth in the fourth quarter, we look for the economic recovery in Russia to remain intact. Growth in real exports of goods and services strengthened to a year-over-year rate of 5.2 percent in Q4-2017 from 4.7 percent in Q3. With global economic growth likely to remain solid, growth in Russian exports should remain resilient. The decline in inflation should help to boost real income growth, which should continue to support growth in consumer spending. Monetary easing should help to shore up interest rate-sensitive spending.

That said, Russia clearly is not going back to the super-charged growth rates that characterized the pre-crisis years. For starters, the country's population is currently contracting, and the United Nations projects that the rate of decline will pick up in coming years. Everything equal, population contraction is associated with economic deceleration. Second, low oil prices and tensions with the West mean that foreign direct investment (FDI) in Russia probably will not return to that of the boom years (bottom chart). Lower investment and technology transfer should also weigh on economic growth.



Source: Bloomberg LP, IHS Markit and Wells Fargo Securities

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
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 Viloria, CFA	Currency Strategist	(212) 214-5637	eric.viloria@wellsfargo.com
Sarah House	Senior Economist	(704) 410-3282	sarah.house@wellsfargo.com
Michael A. Brown	Economist	(704) 410-3278	michael.a.brown@wellsfargo.com
Charlie Dougherty	Economist	(704) 410-6542	charles.dougherty@wellsfargo.com
Jamie Feik	Economist	(704) 410-3291	jamie.feik@wellsfargo.com
Erik Nelson	Currency Strategist	(212) 214-5652	erik.f.nelson@wellsfargo.com
Michael Pugliese	Economist	(212) 214-5058	michael.d.pugliese@wellsfargo.com
Harry Pershing	Economic Analyst	(704) 410-3034	harry.pershing@wellsfargo.com
Hank Carmichael	Economic Analyst	(704) 410-3059	john.h.carmichael@wellsfargo.com
Ariana Vaisey	Economic Analyst	(704) 410-1309	ariana.b.vaisey@wellsfargo.com
Abigail Kinnaman	Economic Analyst	(704) 410-1570	abigail.kinnaman@wellsfargo.com
Shannon Seery	Economic Analyst	(704) 410-1681	shannon.seery@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