

Flash Comment

Russian output and demand: fragile, hovering around zero

- Russia's output growth continues to hover around zero.
- Private consumption lags behind real wages, while low unemployment brings relief to the pay-productivity gap.
- We keep our 2016 GDP growth forecast at -0.6% y/y.

Assessment and outlook

Russia's economic output continues to shrink, although macro indicators show growth is trying to secure a footing around zero. Russia's Q2 16 preliminary GDP data show the economy contracted by 0.6% y/y, while consensus expected a 0.8% y/y slump versus a 1.2% fall in Q1 16. Seasonally adjusted monthly data show growth hovered around 0.0% in June. While industrial production, transportation and agriculture are helping the economy, negative reports continue to emanate from the retail and construction sectors.

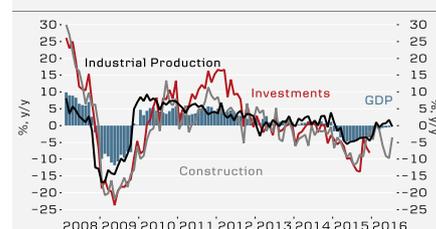
July 2016 output and demand data show that stabilisation continues, although the path remains fragile. The development of macro indicators continues to be L-shaped and we expect a more solid recovery late in H2 16. Industrial production growth surprised negatively posting -0.3% y/y in July after a 1.7% expansion in June. Seasonally adjusted monthly data for industrial production show positive growth of 0.3% m/m, while production grew 0.3% y/y in 7M 16. The demand side improved slightly while staying in negative territory, although real wage growth continued for the third consecutive month in July as disinflation resumed. We remain sceptical about a consumer demand expansion before Q4 16 at the earliest and do not see the current marginal real wage growth affecting the central bank's inflation targeting.

On the output side, good news continues to flow from the agricultural sector, which grew by 4.9% y/y in July, expanding 3.2% y/y in 7M 16 as Russia's countermeasures regarding food imports boosted local supply. Food production was up 2.6% y/y in 7M 16. Manufacturing surprised on the negative side (-1.5% y/y in July) and chemical production shrank for the first time in 20 months (-0.1% y/y), while machinery and equipment rebounded by almost 11% y/y.

The unemployment rate remains low, heading down a notch to 5.3% in July, while the YTD average declined to 5.7%, from 5.8% a month earlier. Labour market flexibility and real wage growth (albeit low) continue to favour employers, easing the pressure on the widening pay-productivity gap, while issuance of work permits for foreign workers from the CIS countries is decreasing.

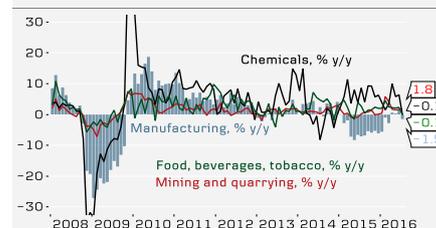
We keep our 2016 GDP growth forecast for Russia at -0.6% y/y (Brent average assumption USD48.6/bl). We also retain our 2017 GDP forecast of 1.2% y/y. The main downside risks to our macro forecast remain a downturn in the oil price, the RUB's high volatility, accelerating inflation, lagging monetary easing and the deterioration of geopolitical sentiment.

Russia's macro indicators are trying to sprout...



Source: Macrobond Financial, Danske Bank Markets

...while industrial production surprised negatively



Source: Rosstat, Danske Bank Markets

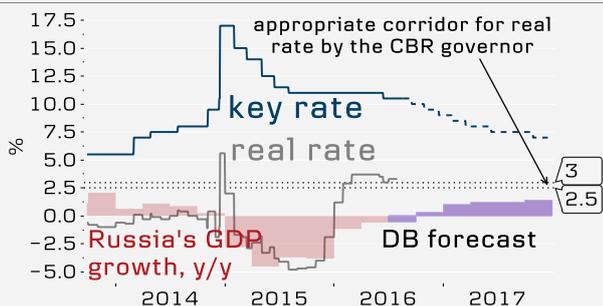
Consumer demand is still negative while real wage growth brings relief



Source: Macrobond Financial, Danske Bank Markets

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Rate cuts set to support economic growth long term



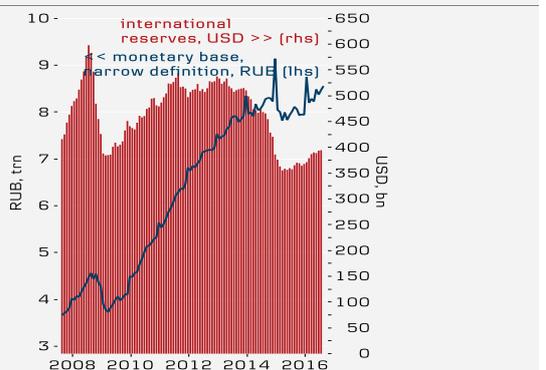
Source: Macrobond Financial, Danske Bank Markets

Disinflation has returned



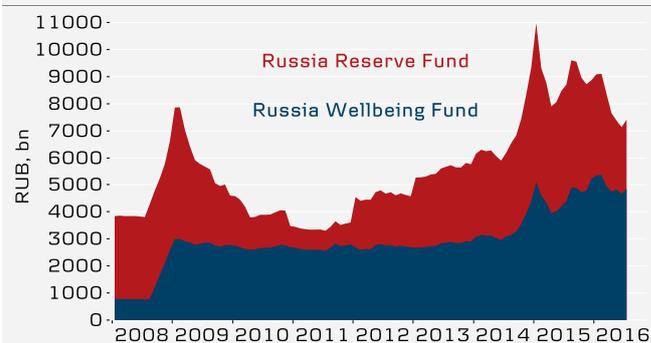
Source: Macrobond Financial, Danske Bank Markets

International reserves are growing on increasing oil price



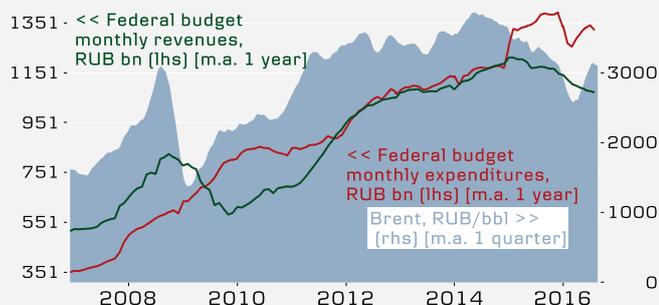
Source: Macrobond Financial, Danske Bank Markets

Oil funds fall due to use for budget spending



Source: Macrobond Financial, Danske Bank Markets

Budget deficit persists while expenditure decreases



Source: Macrobond Financial, Danske Bank Markets

Russia's main macro forecasts

	2014	2015	2016E	2017E
Real GDP (% y/y)	0.6	-3.7	-0.6	1.2
Private consumption, real (% y/y)	1.3	-10.1	-3.5	2.0
Fixed investments, real (% y/y)	-2.0	-7.6	-6.0	2.8
Brent oil price (USD, average)	99.5	53.6	48.6	52.3
Brent oil price (% y/y)	-8.5	-46.1	-9.3	7.5
Exports in USD (% y/y)	-4.9	-31.8	-26.0	6.2
Imports in USD (% y/y)	-9.8	-37.0	-30.0	1.0
MosPrime 3 months rate (% average)	10.5	13.3	9.5	7.1
CPI (% Dec/Dec)	11.4	12.9	6.0	5.1
RUB/USD (% y/y)	-15.7	-37.7	-6.4	5.8
M1 (RUB, trn)	8.3	8.1	9.3	10.2
Unemployment (%)	5.2	5.6	5.8	5.3
Budget balance (% of GDP)	0.9	-2.4	-3.0	-1.0
Current account (% of GDP)	3.2	4.0	3.2	3.8

Source: Macrobond Financial, Danske Bank Markets estimates

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None

Date of first publication

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