20 November 2015

Flash Comment

Russian output and demand: heading for improvement

- **Russia's output indicators signal marginal improvement.**
- **Private consumption turmoil goes on.**
- **We raise our 2015E GDP forecast to -3.9% y/y from previous -6.2% y/y.**
- **We expect the economy to expand 0.5% y/y in 2016E and 1.8% y/y in 2017E.**

Assessment and outlook

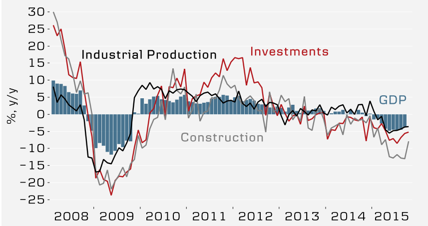
Russia's October output and demand data show some relief in output indicators and signal that deepening economic contraction has been left behind. The fall in fixed investments and industrial production continued to shrink (-5.2% y/y and -3.6% y/y, respectively) as we had expected while the demand side continues to disappoint on account of the purchase power crash. As inflation remained high, real wages growth (-10.9% y/y) shrank the most in 16 years, pushing retail sales to their lowest level since 1998 (-11.7% y/y). We expect the bottom on the demand side to be reached in Q4 15 at the earliest as the private consumption data face an extremely high base effect in December 2015.

On the output side good news continues to flow from the agricultural sector which rocketed 7.7% y/y in October expanding 3% y/y in 10M as Russia's counter measures over food imports boosted local supply. While manufacturing fell 5.9% y/y, it saw a 2.8% m/m expansion although affected by seasonality. Another positive surprise came from chemical production which grew 9.2% y/y as rouble devaluation is supporting exporters, helping pharmaceutical production to grow 7.5% y/y in October and, for instance, paint and coating production to expand by 16.2% y/y. Passenger car tyre production rose 6.4% y/y posting 9.1% y/y expansion in 10M. We expect local demand and the depreciated rouble to support industrial production further in the future while a lack of capacity remains a major concern in the medium term.

Russian consumers continue to suffer the most during the current recession. Purchase power fell to its weakest in years as 2015 average inflation is at 15.6% y/y, pushed up by the devalued rouble and limited supply due to Russia's counter measures. High food inflation is weighing heavily on private consumers, posting 18.4% y/y in October and 21.2% y/y in 10M.

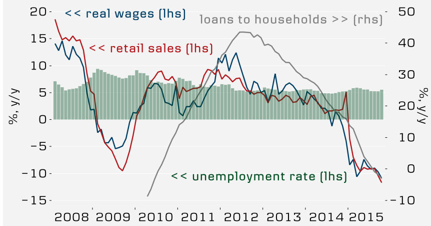
We raise our 2015E GDP forecast to -3.9% y/y from our previous -6.2% y/y, released in May 2015, as economic contraction caused mainly by the oil price crash and aggressive monetary policy (rather than the effect of sanctions) is turning out to be more limited than expected due to the introduction of the free float regime and the start of import substitution. We keep our 2016E GDP growth forecast unchanged at +0.5% y/y as we expect the Brent price to recover 7% to USD59/bbl in 2016E seeing downside risks for our forecast on excessively slow monetary easing. We expect 2017E GDP to expand 1.8% y/y on a lagging rate cut effect leading to recovery in fixed investments and the continuing strengthening of industrial production. We expect to publish a broader note on the newest GDP forecast updates in the near future.

Russia's macro indicators see signs of improvement



Source: Macrobond Financial, Danske Bank Markets

Consumer demand fall sees no relief



Source: Macrobond Financial, Danske Bank Markets

Russia's macro indicators and forecasts

	2014	2015E	2016E	2017E
Real GDP (% y/y)	0.6	-3.9	0.5	1.8
Private consumption, real (% y/y)	1.3	-10.0	0.9	1.6
Fixed investments, real (% y/y)	-2.0	-6.0	-3.0	2.2
Brent oil price (USD, average)	99.5	55.0	59.0	60.0
CPI (% Dec/Dec)	11.4	13.5	7.2	5.8

Source: Macrobond Financial, Danske Bank Markets

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