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INDEPENDENT NEWS FROM RUSSIA

GDP Growth Slows, But Stocks Stabilize

By The Moscow Times

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Russia's economy slowed for a second quarter and missed economist estimates as industrial growth eased and inflation eroded consumer buying power, leaving the world's largest energy exporter trailing emerging market peers.

Gross domestic product expanded 3.4 percent from a year earlier in the April-June period, compared with 4.1 percent in the first quarter, the State Statistics Service announced Thursday. The median forecast of 14 economists in a Bloomberg survey was 4 percent, with predictions ranging from 3.7 percent to 5.3 percent. The Economic Development Ministry estimated growth at 3.7 percent last month.

Russia is struggling to return to pre-crisis growth rates as a slowing global recovery saps demand for its commodity exports. President Dmitry Medvedev is targeting annual growth of 8 percent within five years to keep pace with so-called BRIC peers Brazil, India and China. Prime Minister Vladimir Putin said in May that Russia should almost double GDP per capita within 10 years to become a top-five global economy.

'Dispiriting Number'

“Without a doubt, it’s a dispiriting number,” Vladimir Pantyushin, chief economist at Barclays Capital in Moscow, said by phone. “Economic growth has been the weak link in Russia lately. There’s a political factor — concern about the elections — but growth, in my opinion, is no less important.”

The statement was the statistics service’s first official reading of second-quarter GDP and didn’t provide more details.

Stocks snapped a seven-day losing streak as the price of oil, the country’s biggest revenue earner, advanced after jobless claims in the United States unexpectedly declined.

The MICEX Index gained 0.5 percent to 1,438.91 by the 6:45 p.m. close in Moscow. Gazprom gained 4.3 percent, while Tatneft gained 3 percent. The dollar-denominated RTS Index rose 0.5 percent to 1,544.83.

Industrial production advanced 4.8 percent from a year earlier in the second quarter, down from a 5.9 percent increase in the first three months, according to the statistics service. Natural-resources output fell while manufacturing grew. Urals crude, Russia’s chief export blend, fell 2.9 percent in the April-June period, its first quarterly decline in a year.

Slower Buildup

A slower buildup of inventories and increasing imports contained the recovery last quarter, Yulia Tseplyayeva, head of research at BNP Paribas SA in Moscow, said Thursday, cutting the bank's forecast for the economy's expansion to 4.5 percent from 5 percent.

Norilsk Nickel, the country's largest mining company, saw output of all the metals it produces drop in the second quarter. Magnitogorsk Iron & Steel, a steelmaker focused on the domestic market, decreased second-quarter output of finished steel products from the previous three months as demand slowed.

"The Russian economy is dependent on the raw-materials sector," billionaire Mikhail Prokhorov, who is leading the pro-business Right Cause party into December State Duma elections, told reporters in Moscow on Thursday. "For 25 years the country, in essence, hasn't created new productive capacity."

The country's economy grew at an average annual rate of 7 percent during Putin's presidency from 2000 to 2008 before plunging 7.8 percent in 2009. The government forecasts a 4.2 percent expansion this year, slipping to 3.5 percent in 2012, when Russians will elect their next president. Both Medvedev and Putin have said they may run in the March 4 vote.

Support Slips

Support for Russia's top two politicians, known as the ruling tandem since Putin chose Medvedev to succeed him in 2008, has dipped as inflation during the first half of the year curbed household spending power.

Medvedev has the support of 46 percent of Russians, up from a record low of 43 percent last month, while Putin enjoys the backing of 50 percent, matching his lowest level since 2005, according to a Public Opinion Foundation survey published Thursday.

The Central Bank left interest rates unchanged for a third month in August, citing a balance between risks from inflation and a slowing economy. Central banks in China, India and Brazil tightened monetary policy last month.

Consumer-price growth peaked at 9.6 percent in April and May before easing in June. Real disposable incomes fell 2.5 percent in the second quarter.

The Central Bank expects inflation within its 7 percent target, the lowest since the Soviet Union collapsed in 1991.

Capital Outflows

Economists cited disappointing investment volumes as a reason for lower-than-expected first-quarter GDP growth. Net capital outflows from Russia slowed to $9.9 billion in the second quarter, from $21.3 billion in the first quarter and $34 billion in 2010, according to preliminary Central Bank data.

"Despite high oil prices, capital outflows continued, which speaks to the unstable investment climate and investor caution about Russia," Yaroslav Lissovolik, chief economist at Deutsche Bank in Moscow, said Wednesday. "To boost economic growth rates, Russia needs above all to make the economy more attractive for investment."

To lure investment, Medvedev has pledged to sell stakes in state companies such as Rosneft, the country's largest oil producer, to reduce the state's sway over the economy.

Output should pick up in the second half on growth in the agricultural sector, Lissovolik said. So far, this year's wheat harvest is 11 percent higher than a year ago, while yields are 35 percent better, the Agriculture Ministry said Wednesday. Russia endured its worst drought in half a century last year.

"The third quarter may be significantly better because of agriculture," Vladimir Tikhomirov, chief economist at Moscow-based Otkritie Capital, said by phone before the release. "A good harvest may drive the economy to 4.5 percent growth."

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