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Economic Slowdown Deepens in Third Quarter

By The Moscow Times

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Russia's economic growth continued to decelerate in the third quarter, as growth in domestic consumption and investment lost momentum, exacerbating the impact of a cooling global economy.

Growth in gross domestic product was 2.9 percent in the third quarter, year on year, according to a preliminary estimate by the State Statistics Service published Monday.

That represented a marked slowdown compared with the 4.0 percent growth rate seen in the second quarter and the 4.9 growth rate in the first quarter.

The outcome was slightly better than implied by previous GDP estimates made by the Economic Development Ministry, which had estimated year-on-year GDP growth at 3 percent in July, 2.8 percent in August and 2.5 percent in September.

"We've got a slight positive surprise, but this is not very significant given that the market is still expecting more weakness in the coming months," said Dmitry Polevoy, economist at ING.

The economy performed unexpectedly well during the first half of the year, as rapid growth in household spending and corporate investment — in part fueled by election-related expenditures — compensated for stagnant exports caused by the weakening global economy.

However, growth in consumption has lost momentum in recent months against a background of rising inflation, while investment has recently registered a fall.

A relatively poor harvest this year has also contributed to higher inflation and a weakening of agricultural output.

"In our view, the economy will be in a soft patch until the first quarter of 2013 as global and domestic headwinds will continue to be felt, but resume brisker growth from the second quarter of 2013," Renaissance Capital economist Ivan Tchakarov wrote in a note.

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