

Russian Investment Falls Again, Confirming Weak Economic Outlook

By [The Moscow Times](#)

October 17, 2014

The  **Moscow Times**

Investment by Russian companies fell sharply in September and real wages declined, underlining the gloomy outlook for an economy under pressure from Western sanctions.

The weak data, published by the State Statistics Service on Friday, contrasts with bullish statistics on industrial production earlier in the week, suggesting that a recent industrial spurt doesn't point to a fundamental improvement in overall economic trends.

"The [latest] data looks weak, given the fact that investment is in contraction mode," said Dmitry Polevoy, an economist at ING. "There have been no miracles as was the case with industrial production."

Capital investments fell 2.8 percent on a year earlier, more than analysts had forecast and steeper than August's 2.7 percent fall.

Investment has fallen every month this year except June, highlighting weak incentives and the financial squeeze from Western sanctions designed to punish Russia's actions in Ukraine.

Retail sales picked up slightly compared with the previous month, up 1.7 percent in September compared with 1.4 percent in August, but analysts warned that the trend was unlikely to be sustainable. ING's Polevoy said the acceleration was probably the result of a flattering statistical comparison, given shrinking real wages.

Nominal wages rose 6.9 percent in September, lagging inflation so that real wages fell 1 percent.

"The biggest disappointment is this negative growth in real wages, which just raises even more question marks about the sustainability of this growth in retail sales," he said.

Analysts say the squeeze on real wages is causing previously rapid growth in household consumption to decline markedly.

"We see little reason to expect a turnaround in consumption over the next couple of quarters as the steady ruble weakening and still rising inflation should continue to weigh on consumer confidence," Citi economist Ivan Tchakarov said in a report last week.

Capital Economics economist Neil Shearing said in a note commenting on the September data that both the higher retail sales growth and the strong industrial growth earlier in the week probably reflected an extra working day in September compared with the previous year.

"The bigger picture is still one of an economy that is essentially stagnating," he wrote. "The main weak spot remains investment."

Shearing attributed the investment slump to tight credit, financial sanctions, general concerns about the economic fallout from the Ukraine crisis, and underlying problems with Russia's investment climate.

"It's important to bear in mind that investment was weak well before the crisis in Ukraine erupted. Raising investment remains key to reinvigorating Russia's economy."

Analysts polled at the end of last month predicted zero growth for Russia's economy this year and a 0.3 percent contraction in the fourth quarter.

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