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Russia Recession Seen as Key Growth Indicators Plummet

By The Moscow Times

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A poster for one of Russia's banks, which are battling a credit squeeze.

Russia saw steep declines in key economic activity indicators in January, reinforcing expectations that it is heading for recession as low oil prices and Western sanctions bite.

Real wages slumped by 8 percent and retail sales fell by 4.4 percent, illustrating how inflation is biting into pay packets and household spending, official data showed on Wednesday.

Capital investment also sank, by 6.3 percent, showing the impact on corporate spending of a credit squeeze, falling export revenues and deteriorating growth prospects.

Weak data had been expected, following a large devaluation of the ruble which pushed up inflation to 15 percent last month. But the data was worse than predicted in a poll at the end of January.

"Overall, the data has clearly surprised on the downside in terms of key domestic demand

components," ING Russian economist Dmitry Polevoy said in a note.

The ruble has lost 40 percent of its value in the last six months as a result of sinking oil prices and Western sanctions imposed over the conflict in Ukraine, pushing up import prices and biting into real incomes.

The poor data reinforces expectations that Russia is heading for recession. The government forecasts a 3 percent fall in gross domestic product in 2015. Many analysts expect the decline to be greater.

The fall in retail sales in January follows a surprise surge in December, which analysts said was driven by shoppers rushing to buy goods before prices rose.

"Russian consumers are bearing the brunt of the economy's problems," Neil Shearing, chief emerging markets economist at Capital Economics, said in a note.

The recent data "does not yet suggest that the economy is collapsing," he added. "But it's clear that the squeeze on consumers is intensifying, and the downturn is likely to gather pace over the coming months."

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