Russia: consumers got the Black Friday boost, producers still in gloom

We take November's unexpected 'spike' in the retail trade to 2.3% year-on-year as a response to the 'Black Friday' sales. Russians' high sensitivity to discounts combined with disappointing industry data may lead to stronger calls in favour of looser budget policy soon

Source: Shutterstock

2.3% YoY

November retail trade

+1.6% YoY for 11M19

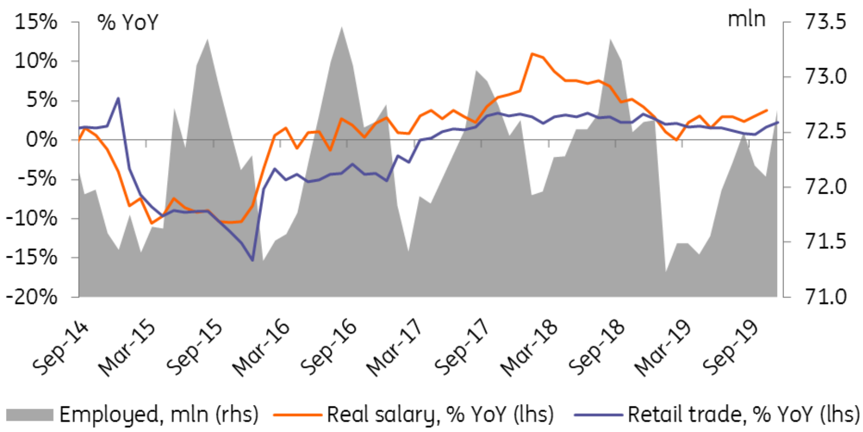
Better than expected

Spike in retail trade suggests high sensitivity to discounts

At the first glance, November growth in retail trade by 2.3% YoY looks like a very positive result compared to 1.4% consensus and October's 1.7% figure. Moreover, it may appear to be supported by the income trend, as real wage growth accelerated to 3.8% YoY in October (this datapiece comes with a 1-month lag), also beating expectations, and the number of employees spiked by 0.6 million MoM in Novmeber to this year's high. Nevertheless, we do not take it as a sign of sustainable improvement in the consumption trend: rather it looks like a sign of high sensitivity to price.

- According to our estimates, 0.6-0.9 percentage points out of 2.3% YoY retail trade growth in November reflected a spike in sales in the second half of November in response to the 'Black Friday' sales. Summarizing various anectotal reports we conclude that the sales of household appliances and consumer electronics, which account for around 3% of the total retail trade in Russia, went up by 20-30% in November 2019.
- October's acceleration in the real salary growth reflected mainly the annual 4.3% increase in the public sector salaries (20-25% of the employed). At the same time, we do not exclude some further acceleration in real terms in November-December and 1Q20 thanks to the deceleration of CPI from 3.8% YoY in October to 3.5% YoY in November and the likely drop to 2.3-2.5% YoY in 1Q20.
- Increase in the number of employees (amid an unchanged unemployment rate of 4.6%) looks like a compensation for the sharp drop in the beginning of the year, and it remains unclear if this improvement reflect actual increase or changes in methodology. Average number of employees for 11M19 at 72.7 million people is still 0.6 million below the 11M18 number. This is happening despite that fact that the increase in the retirement age, which commenced this year, was supposed to increase the number of employees by around 0.6 million people vs. 2018.

Income/consumption growth fundamentals



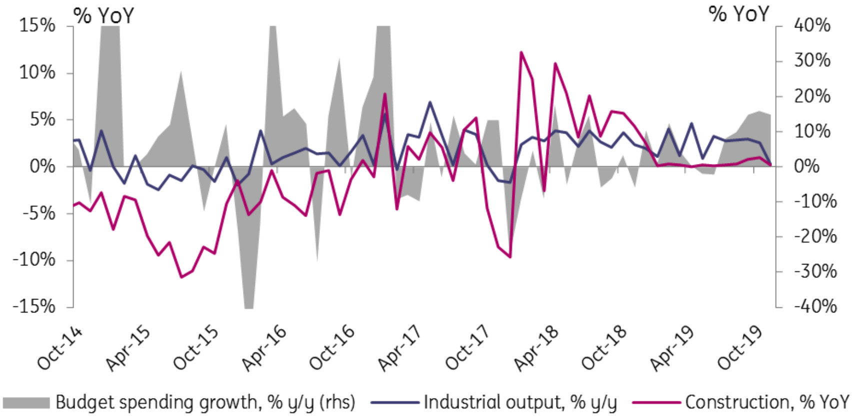
Source: State Statistics Service, ING

Corporate activity disappoints again

On the corporate side, there is even less to be excited about, as the very disappointing slowdown of industrial output growth from 2.6% YoY in October to 0.3% YoY in November (vs. 2.6% consensus forecast) mainly on negative manufacturing performance, was accompanied by the deceleration in construction growth from an already unimpressive 1.0% YoY in October to 0.2% YoY in November. This takes place amid the much expected acceleration in the budget spending growth to 15% YoY in October-November, which however is not strong enough to guarantee a 100% fulfillment of this year's plan. We do not exclude that this year's underspending may total around RUB0.3 trillion, adding to the already existing backlog of RUB0.8 trillion from 2018.

Overall, the corporate sector data suggests that the producer trends remain unstable amid uncertainties regarding future consumer demand and the government's ability to ramp up investment spending.

Key indicators of the Russian producer trend



Source: State Statistics Service, Finance Ministry, ING

Budget policy may come into focus soon

November macro statistics did not boost our confidence in the prospects of consumption and pointed at continued fragility of the producer trends. Meanwhile, the list of conventional support measures available to the authorities appears limited, as the scope for key rate cuts following this year's 150 bp cut is now limited. We therefore do not exclude that calls to intensify budget spending may now increase. President Putin's annual press-conference scheduled for December 19 is a watch factor in this regard. Possible mentioning of the large RUB1 trillion spending backlog and criticism of administrative hurdles to spending release could be a sign of growing concern with the weak investment growth, which was only 0.7% YoY in 9M19, and that the next year's spending plan, which currently assumes only modest 5% spending growth, could be outperformed. However, in any case, acceleration in the GDP growth, currently at around 1.3% YoY, is unlikely to see any material improvement until later into 2020.

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