Russia: Year-end bonuses gave consumption a little boost

Strong growth of salaries in sectors related to oil&gas, financials, and construction may have contributed to above-expected consumption growth in January, though the impact was probably not strong. Budget spending and and the savings rate will determine consumption and corporate activity this year

Source: Flickr

2.7%

January retail trade, YoY

up from 1.9% YoY in December

Better than expected

Rich households getting richer, providing limited support to consumption

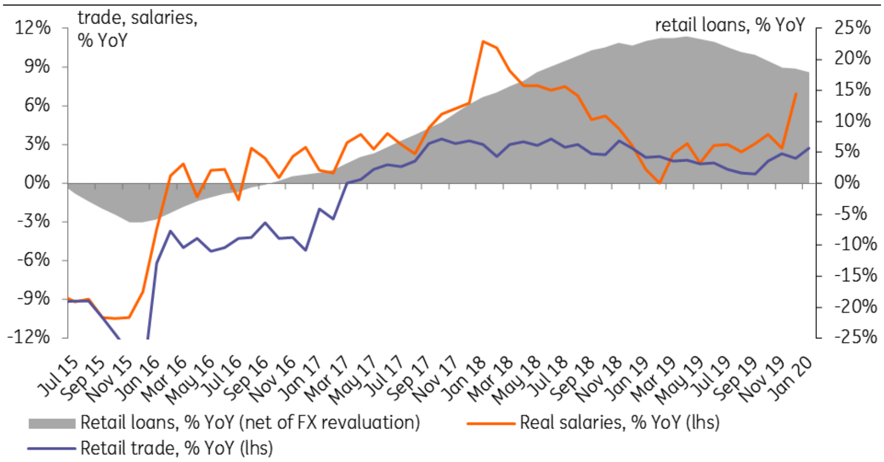
Russian retail trade growth accelerated from 1.9% year on year in December 2019 to 2.7% YoY in January 2020, beating the consensus forecast of 2.2% and our 2.4% YoY expectations. This outperformance may have been partially caused by above-expected income growth in December (the data release on income lags consumption by one month): real salaries growth has significantly accelerated from 2.7% YoY in November to 6.9% YoY in December, which is a very positive surprise. We have several observations on the matter:

- The sectors which contributed the most to the December acceleration in salary growth include construction (7% of employed, acceleration in nominal salary growth from 6.5% YoY in November to 10.7% YoY in December), trade (16% of employed, acceleration from 5.4% to 9.2%), transport (9% of employed, acceleration from 7.4% to 9.3%), finance (2% of employed, acceleration from 8.4% to 20.3%), and real estate operations (2% of employed, acceleration from 6.3% to 13.3%).
- Salaries in the construction sector may have benefited from the year-end inflow of the budget spending on infrastructure (consolidated budget spending on the National Economy accelerated from 9% YoY in 11M19 to 29% YoY in December), while employees in the rest of the above-mentioned list probably received increased year-end bonuses in the oil trade and transportation sectors, as well as in finance (thanks to the successful year on financial markets).
- Given that all the listed sectors except for construction (oil&gas, finance) enjoy above-average income levels, a significant chunk of the inflow may have translated into consumption abroad and could have returned on the financial market through brokerage accounts, which are gaining popularity amid the strong financial market performance. According to the Central Bank of Russia data, the amount of open brokerage accounts increased by 55% YoY in 9M19 to 3.4 million and probably continued accelerating in 4Q19.
- Banking statistics shows no acceleration in retail deposit growth (around 10% YoY adjusted for revaluation effect) in November-January and no material deceleration in retail loan growth (19% YoY in November-December and 18% YoY in January), suggesting that extra income was neither saved locally nor used to redeem household debt.

Overall it appears that the extra income has provided only moderate support to local consumption. Looking into the structure of retail trade growth, the food segment has been the key driver showing acceleration from 1.6-1.8% YoY in November-December to 2.9% YoY in January, while non-food retail trade remained in the 2.1-3.0% range seen in November-December - at 2.5% YoY in January.

We reiterate our call that this year consumption may benefit from additional social spending, though the positive impact may be limited at 0.5-1.0 percentage points of extra consumption growth. A more active increase in consumption, which is so far not the base case, would require higher preference of the higher-income households (around one-third of Russians have the luxury of making savings) to spend. Meanwhile, the coronavirus outbreak could become a pressure factor for retail trade in the coming months, as the recent restrictions on travel will lower the number of incoming tourists from China. Accroding to 2018-19 data, around 1.5-2.0 million Chinese tourists visit Russia annually and spend US$5-7k per trip.

Figure 1: higher income growth provided modest support to consumption



Source: State Statistics Service, Bank of Russia, ING

Corporate sector shows signs of modest recovery

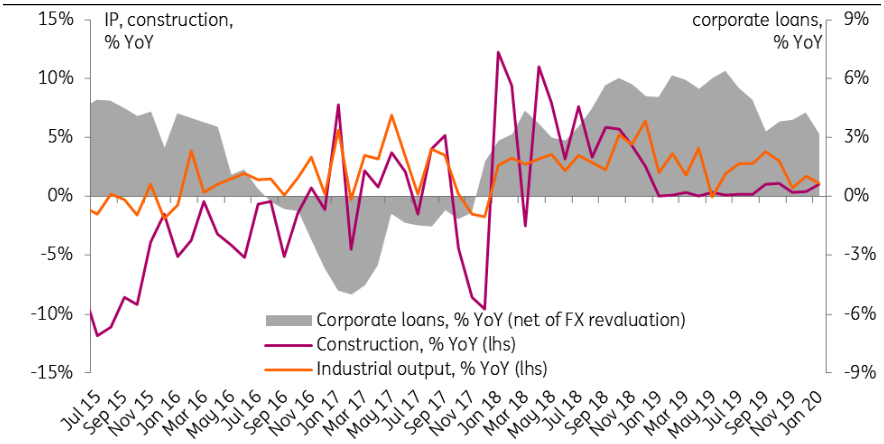
Corporate activity remained modest. In addition to deceleration in the industrial output (which however was pressured mostly by weather conditions and statistical rebasing), freight turnover dropped 4.4% YoY in January, including in the railway, shipping, aviation, and pipeline segments. Noteworthy, this data is unlikely to incorporate the effect of coronavirus, which may have started showing only very late in January. For now, our guess is only about the 5.1% YoY drop in pipeline throughput that may be related to recent tensions with Belarus, which accounts for around 6-7% of Russia's oil exports.

On the positive side, however, we note that the construction sector has finally showed modest recovery, showing a 1.0% YoY increase in January after a mostly flat 2019, possibly responding to budget spending inflows in the year-end. No acceleration in the corporate lending seen in January confirms that the primary source of financing of construction and other corporate activity is budget. To remind, with the Russian government willing to unwind fiscal policy, public spending may show around a 10% increase this year, and this expenditure may become more focused on infrastructure as well as social support - being positive for both heavy industries and even consumer-driven stories.

Meanwhile, as with the case of consumption, coronavirus remains a risk factor, as over the last ten years China has gained importance as Russia's trade partner (share of China in exports increased from 6% to 13%, in imports - from 14% to 22%). According to a recent ING research report, China accounts for 70% of world's iron ore imports, which leaves the Russian metals sector exposed. In addition, the apparent 20% drop in oil demand in China is another test, as oil is the primary Russian export commodity to China.

Overall, we reiterate our take that a bit more generous budget policy this year may provide some support to producer activity, however, the behaviour of sectors not directly linked to the budget policy (seen primarily through banking statistics) and coronavirus developments remain factors of uncertainty.

Figure 2: recovery in construction so far modest, financed by budget, not credit



Source: State Statistics Service, Bank of Russia, ING

Both households and corporates are showing signs of modest recovery in activity sponsored by unwinding in the budget policy, which will take place going forward. Meanwhile, the two key uncertainties for now are whether the budget stimulus will be enough to offset the potential negative effect from coronavirus and whether the mood in sectors not directly related to the budget will turn to the better.

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