

## Russia: Data shows glass is half full

Industrial production was weaker than expected but domestic demand has improved



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### The good/bad checklist

Just-published Russian data for December looks sufficient to quash concerns about the economy's performance in late 2017 - and the outlook for 2018. Industrial production growth in the fourth quarter and December specifically was weaker than expected, fuelling concern about the pace of GDP growth. But domestic demand growth seems to have improved over December.

#### Unemployment near multi-year lows

The unemployment rate has stuck at the 5.1% level observed since October 2017, i.e. in line with ING forecasts and the consensus. And it has fallen slightly to below 5.1% after adjusting for seasonality, hence remaining near multi-year lows.

#### Real wage growth at full speed

Real wage growth did slow to 4.6% year-on-year from the upwardly revised 5.8% (5.4% initially), meeting our forecast while slightly undershooting the consensus of 4.9%. Still, the slowdown mostly comes from lower nominal wage growth (7.2% vs 8.4%) and the latest print still looks decent.

The sectoral data (only for Nov-17) reveals that public sector nominal wage growth accelerated from 7.7% YoY to 10.7%, with a slower pace in the private sector (3.2% vs 7.1%). President Putin's 2012 post-election decrees will mean a further adjustment in public wages this month, which together with still moderate growth in private sector wages will likely keep overall growth at solid but non-risky levels.

### ✓ Consumption growth picked up

Retail sales advanced by 3.1%, only slightly exceeding our forecast of 3%, while undershooting the consensus of 3.5%. This marked an acceleration from the 2.7% rate in Nov-17 and was due to firmer sales of food (3.4% vs 2.2%) with some weakness in non-food sales (2.8% vs 3.2%). Services growth turned marginally positive at 0.1% vs -0.6% in the previous month. Overall, our proxy for private consumption (retail+services) added 2.5% in Dec-17, i.e. returning to the highest readings of 2.5-2.6% observed in 2017.

### ? Real disposable incomes still fail to grow

Real incomes dropped by 1.8% after falling 0.1% in Nov-17, compared to our above-consensus call of +2.1% and the consensus of 0.1%. Hence, incomes have failed to return to growth in 2017 despite the solid performance of wages. This could be both a reflection of technical difficulties in calculating incomes as well as the weaker performance of the non-wage related components of personal income but it is hard to say, so we still pay more attention to real wages and pensions (around 85% of incomes).

### ✓ Construction resumed growth

Construction growth improved from -1.1% to 1.3%, i.e. bottoming out after declines in previous months. This stabilisation could have been due to abnormally-warm weather at the end of the year but could still be positive for overall investment.

## Glass half-full, not half-empty

The improvement in domestic demand in late-2017 jibes with our outlook for consumption and investments (especially after the Mar-18 Presidential elections) and supports our 2% GDP growth forecast. The fiscal rule aimed at reducing the Ruble's (RUB) sensitivity to oil prices coupled with moderate RUB weakness against the euro in 2018 should be supportive for exports and help tame excessive growth in imports.

The Central Bank of Russia's base-case forecast of 1.5-2.0% growth should leave the focus on inflation as the primary determinant of policy moves. With inflation near 2.3% in early 2018 and recent comments by President Putin about "room for lower key rates," the risk of a 25bp cut on 9th February has clearly increased. Yet, the actual outcome will depend on the wording and the markets reaction to the expected publication of the "new sanctions" report in the US next week.

Our base-case remains for the key rate to drop to 6.75% in 2018 via four 25bp rate cuts each quarter. Yet, we may revise the timing if the CBR chooses a more dovish path than we expect.

