

Russia: Data shows glass is half full

Industrial production was weaker than expected but domestic demand has improved



Source: Shutterstock

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.

Author

Amrita Naik Nimbalkar

Junior Economist, Global Macro

amrita.naik.nimbalkar@ing.com

Alissa Lefebre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Sector Economist, TMT & Healthcare

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland
adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan
min.joo.kang@asia.ing.com

Coco Zhang

ESG Research
coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT
jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure
Katinka.Jongkind@ing.com

Marina Le Blanc

Sector Strategist, Financials
Marina.Le.Blanc@ing.com

Samuel Abettan

Junior Economist
samuel.abettan@ing.com

Franziska Biehl

Senior Economist, Germany
Franziska.Marie.Biehl@ing.de

Rebecca Byrne

Senior Editor and Supervisory Analyst
rebecca.byrne@ing.com

Mirjam Bani

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)
mirjam.bani@ing.com

Timothy Rahill

Credit Strategist
timothy.rahill@ing.com

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Oleksiy Soroka, CFA

Senior High Yield Credit Strategist

oleksiy.soroka@ing.com

Antoine Bouvet

Head of European Rates Strategy

antoine.bouvet@ing.com

Jeroen van den Broek

Global Head of Sector Research

jeroen.van.den.broek@ing.com

Edse Dantuma

Senior Sector Economist, Industry and Healthcare

edse.dantuma@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics

Rico.Luman@ing.com

Jurjen Witteveen

Sector Economist

jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Egor Fedorov

Senior Credit Analyst

egor.fedorov@ing.com

Sebastian Franke

Consumer Economist

sebastian.franke@ing.de

Gerben Hieminga

Senior Sector Economist, Energy

gerben.hieminga@ing.com

Nadège Tillier

Head of Corporates Sector Strategy

nadege.tillier@ing.com

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Laura Straeter

Behavioural Scientist

+31(0)611172684

laura.Straeter@ing.com

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials

suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri

thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors

maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands

marcel.klok@ing.com

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

Marieke Blom

Chief Economist and Global Head of Research
marieke.blom@ing.com

Raoul Leering
Senior Macro Economist
raoul.leering@ing.com

Maarten Leen
Head of Global IFRS9 ME Scenarios
maarten.leen@ing.com

Maureen Schuller
Head of Financials Sector Strategy
Maureen.Schuller@ing.com

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

Philippe Ledent
Senior Economist, Belgium, Luxembourg
philippe.ledent@ing.com

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

Inga Fechner
Senior Economist, Germany, Global Trade
inga.fechner@ing.de

Dimitry Fleming
Senior Data Analyst, Netherlands
Dimitry.Fleming@ing.com

Ciprian Dascalu
Chief Economist, Romania
+40 31 406 8990
ciprian.dascalu@ing.com

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research

+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801

martin.van.vliet@ing.com

Karol Pogorzelski

Senior Economist, Poland

Karol.Pogorzelski@ing.pl

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Viraj Patel

Foreign Exchange Strategist

+44 20 7767 6405

viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content

+44 (0) 207 767 5331

owen.thomas@ing.com

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

peter.vandenhoute@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Gustavo Rangel

Chief Economist, LATAM

+1 646 424 6464

gustavo.rangel@ing.com

Carlo Cocuzzo

Economist, Digital Finance

+44 20 7767 5306

carlo.cocuzzo@ing.com