Russia: Activity decelerated in January

All the key indicators of activity in Russia, including retail trade, construction, and industrial output, deteriorated in January 2019 vs. the end of last year, supporting expectations of weaker GDP growth in 2019 and the risk of easing in the budget policy

Source: iStock

0.2% YoY

January 2019 real salary growth

vs. 6.8% in 2018

Worse than expected

At first glance, the retail trade growth of 1.6% YoY may appear not too disappointing, especially given that it exceeds the market consensus of 1.0% and our more pessimistic expectations of zero growth. However, we note that the key support driver for the January trade was the volatile food segment, while the non-food retail trade decelerated to a 20-month low of 1.2% YoY. At the same the growth in real salaries significantly underperformed market expectations posting only 0.2% YoY growth, which is a 30-month low, as a result of a slowdown in nominal growth from 9.9% in

2018 to 5.2% YoY in January and an acceleration of CPI growth from 4.3% to 5.0% YoY, respectively.

This suggests that the VAT hike effective in January did lead to a weakness in consumption and to an acceleration in CPI, while the slowdown in the nominal income growth has pushed households to tackle their savings. This has yet to be confirmed by the banking sector data, to be released later this month. Given the expectations of a further acceleration in CPI and the lack of income drivers so far, we expect consumption weakness to persist in the coming months.

1.1% YoY

January industrial output growth

vs. 2.9% in 2018

Worse than expected

The corporate activity indicators also deteriorated in the beginning of this year, as industrial output growth was reported below 1.8% consensus and our more optimistic 2.1% expectations, as the strong growth in the commodity extraction sectors were offset by the drop in manufacturing. Moreover, construction growth, a proxy for investment activity, showed a material deceleration from the recently upgraded 5.3% growth in 2018 to just 0.1% YoY in January 2019. This performance confirms that the multiplier effect of large infrastructure projects carried out last year is rather modest. We note that the growth in the commodity extraction sector going forward is itself subject to uncertainty given the country's obligations under the OPEC+ deal limiting oil output.

Overall, January activity data suggests that net exports is the only driver for Russian GDP at the moment. The weakness in local investment and consumption demand could result in a more than halving of GDP growth in 2019 vs. 2018's 2.3%. We expect the Presidential address to the Parliament this Wednesday to touch upon the issue of mounting challenges to local growth and the ways of addressing them. Any concrete proposals on an improving business climate would be welcome, while the key risk is that budget easing might be used as a tool to directly boost household income and corporate capital expenditures.

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