

Russia: Consumer confidence takes a major hit

Russian retail trade dropped 23.4% YoY in April, worse than consensus. The silver lining here is that it reflects households' decisions to redeem debt and accumulate savings. Meanwhile, with unemployment jumping from 4.7% to 5.8% in a month, a recovery in consumer confidence will not be easy and may require further state support



Source: Shutterstock

-23.4 Russian retail trade in April, % YoY

Worse than expected

Drop in consumption so far driven by expectations

After a pre-lockdown growth by 5.6% year on year in March, Russian retail trade dropped by 23.4% YoY in April, which is worse than the -17.7% consensus and far worse than our more optimistic expectations of -10.0%. The drop comprised of a 9.3% YoY decline in food retail and a 36.7% YoY collapse in durable goods. While the overall data is obviously negative, there are a couple of redeeming features to be mentioned:

- It is so far unclear to what extent the state statistics account for the the rapid repositioning of retailers towards online, which took place in April.
- The banking statistics suggest that the April drop in consumption was not a result of a deterioration in households' balance sheets. Around 80% of the reported YoY retail drop in April (RUB450 bn out of RUB550 bn) reflects deleveraging: last month the retail loan portfolio declined by RUB130 bn month on month vs an increase by almost RUB320 bn MoM in April 2019.
- Higher income households' financial position appears stable, as retail deposit (around one-third of Russian households have bank savings) growth has remained stable at around 10% YoY in RUB terms. A lack of acceleration may also point at some substitution of foreign travel with local consumption.

As a result, it appears that the substantial drop in household consumption seen in April was mainly a result of deteriorating expectations, rather than an actual deterioration of households' financial position. Nevertheless, it in no way means that a recovery in consumer confidence will be an easy task.

- The spike in unemployment from 4.7% to 5.8% in April (or by 0.8 million people) may seem modest compared to widely discussed US data, however, it should be noted that the Russian labour market favours adjustment through income, rather than employment, making the April result quite dramatic. With small and medium enterprises (the segment most hit by the quarantine measures) accounting for up to 25% of the officially employed, the scope for further increase in unemployment is not exhausted.
- The April drop in consumption took place despite the cascade of support measures announced and taken by the government (fiscal stimulus of 2.8% GDP was announced, increased to 3.5% GDP in May, focusing on social spending and tax breaks for SMEs) and the central bank (monetary easing, refinancings to SMEs, interest payment holidays).

Most of the April drop in consumption was driven by household debt redemption, which is somewhat positive. At the same time, any meaningful recovery in consumer sentiment would require stabilisation of employment, which cannot be guaranteed until low confidence in SMEs and other sectors hit by Covid-19 is addressed. We do not exclude that the push for fiscal and monetary easing may now increase.

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