

## Russia: Weaker consumer activity - a challenge to budget conservatism?

Retail trade growth decelerated to 2.2% year-on-year in September, below expectations, despite unemployment dropping to a new low of 4.5% and real salaries growing more than the expected rate of 7.2% YoY. The apparent higher preference for savings suggests that households are bracing themselves for a possible deterioration in the economy



Source: Shutterstock

# +2.2%

September retail trade (YoY)

9M18: +2.6% YoY

Worse than expected

The official reading of September retail trade growth was 2.2% YoY, below the 2.4% consensus and

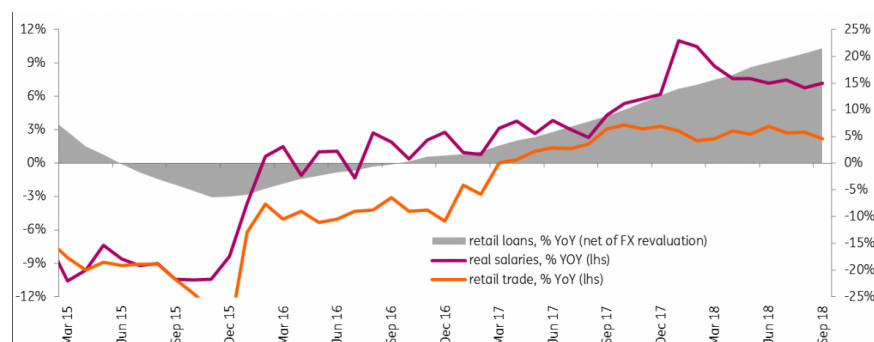
our 2.3% forecast. It also marks a deceleration from the 2.8% YoY rate seen in August. We think this is a case of deteriorating expectations, rather than an actual erosion of fundamental income trends. The unemployment rate declined to a new record low of 4.5% vs. the market expectation of an increase to 4.7%, and real salary growth surprisingly accelerated to 7.2% YoY, higher than the 6.0-6.5% YoY expectations and the August reading of 6.8% YoY.

The persistent strength in income growth fundamentals (we disregard the real disposable income metric due to its inherent statistical imperfections) suggests that the deterioration of consumption reflects a higher preference for savings, which is a standard defensive reaction from Russian households amid growing uncertainties. Indeed, the recent polls ordered by the Bank of Russia show a noticeable drop in consumer sentiment since May this year. Possible reasons include higher geopolitical uncertainties as well as local factors such as the end of the electoral cycle, the decision to increase the retirement age, the VAT rate increase and tighter monetary policy signals.

We also note that the deceleration in retail trade was attributable mostly to the food segment, while non-food retail growth totalled 4.1% YoY, which is very close to the August level of 4.2% YoY. This might be an indication that the deterioration in sentiment is concentrated among the lower income groups. Meanwhile, the continued acceleration in retail loan growth to 22% suggests that the higher income strata (as the income threshold for consumer loans and mortgages is quite high in Russia) are less affected.

Key events in EMEA and Latam next week

## Russian consumer trends



Source: State Statistics Service, Bank of Russia, ING

Regardless of the reasons for the slowdown in consumption, it suggests that GDP growth- having already decelerated from 1.9% YoY in 2Q18 to 1.3% YoY in 3Q18, as reported by the Ministry of Economic development just now- will remain under pressure in the coming quarters. While neutral for monetary policy, which has to remain moderately hawkish because of the heightened inflationary risks, this weakening consumer activity amid declining approval rates for the country's political leadership, might become a challenge to the conservative budget policy implemented so far. An easing in the budget rule and calls for extra social spending to be incorporated into the 2019-21 budget draft would be the major factors to watch.

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