Russia: Consumption shows improvement, but income trend uncertain

The retail trade drop narrowed in June, possibly supported by the lack of international travel. Income fundamentals appear solid at first glance but mask a higher share of grey income and increased dependence on state support

Crowds at the Moremoll shopping centre in Sochi, Russia

-7.7%

June retail trade, % YoY

after -19.2% YoY in May

Better than expected

Retail trade drop narrows noticeably in June, uncertainties remain

Russian retail trade drop narrowed from -19.2% year-on-year in May to -7.7% YoY in June, outperforming the consensus forecast of -11.0% and our -11.5% expectations.

- The improvement was seen in both the food and non-food retail segments, and support factors include the wide lifting of lockdowns ahead of the constitutional voting in the last week of June, combined with persistent foreign travel restrictions. The latter may soon be somewhat relaxed to a limited extent, which means that local consumption may continue to see some boost during the summer months. In 3Q last year Russians spent US$16.5bn on foreign travel, which means that this quarter the consumption of goods and services might receive around a 5-10% boost.
- State injections to household income were another support factor. As we mentioned earlier, the acceleration of the federal budget spending growth in 1H20 was headlined by an 80% YoY increase in non-pension social payments (funding the unemployment benefits and childcare support), 109% YoY increase in healthcare expenses, and 64% YoY increase in transfers to regional budgets. Following the current fiscal stimulus package, the share of spending on household income (through state sector salaries, pensions, and other social benefits) in the consolidated budget is likely to increase from the already high 56% in 2019 to around 60% in 2020. The share of state support in household income may jump from 33% in 2019 to 35-36% in 2020.
- The current indicators of income trend, including a very modest increase in unemployment to 6.2% in June (vs. 6.3% consensus) and increase in real salaries by 1.0% YoY in May (vs. -4.6% YoY consensus and -2.0% YoY drop in April) may seem benign, however we have several concerns. First, the low unemployment in Russia may mask a higher level of underemployment. Second, the May improvement in salary growth seems to be driven by payments (most likely one-off) in the oil&gas and financial sectors (with salaries 2-3 times higher than the Russian average) and increase in salaries in the state-driven education and healthcare for reasons mentioned above. The four sectors account for only 22% of Russia's labour force, while the rest of the sectors showed no material improvement in salary dynamics, and in some cases, including construction, trade, transport, hospitality, IT (combined 36% of the labour force) saw a deterioration. Third, the -1% YoY average drop in real salaries in April-May clash with the 8.0% YoY drop in the real disposable income reported for 2Q20, suggesting a widening of the role of the grey income.
- Retail lending growth somewhat recovered to 1.0% month-on-month in June, mainly on subsidised mortgages, but continued to decelerate in annual terms to 12.6% YoY in June (vs. 18.5% at the end of 2019 and 17.8% YoY at the end of 1Q20), suggesting modest support to consumption, if any. Interestingly, retail deposit growth totaled 9.4% YoY in June, virtually in line with the dynamic since the beginning of the year. Combined with accelerated inflows into private brokerage accounts (to +RUB65 billion in June from +RUB30-35 billion in April-May), this suggests diverging income trends between the high- and low-income households.

We expect retail trade dynamics to continue improving in 3Q20 thanks to travel restrictions and state support. Meanwhile, given the uncertainties regarding the income trend, our target of just a 4.0% real trade drop for the full year (after -6.4% YoY in 1H20) looks like a challenge at this point.

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