

Russia: Positive January data eases GDP concerns

January statistics suggest the GDP weakness in 4Q17 might have been just temporary. But it still allows the Russian central bank to continue (a balanced) easing policy



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January economic data confirms growth is underway

January data was widely awaited after the soaring industrial production data we had earlier in the month, dispelling all doubts about the state of the Russian economy. The Rosstat release has mostly confirmed the economy looks quite OK at the beginning of 2018.

Income indicators look solid

Real wage growth was stable at the December 2017 level of 6.2% YoY, after it was revised up from 4.6%. We had an above-consensus 7.8% forecast versus market expectations of 5%, which bodes well for the released figure after taking the revision into account.

The growth is partly due to the required pay adjustment finalised in January 2018 for some types of public employees covered by Putin's 2012 post-election decrees as well as the four-percent-

based indexation of wages for those not included.

It is also interesting that decent wage growth in December 2017 (the only available sectoral data) was observed both in the public and private sector, and in the latter case annual bonuses might be a reason. Disposable incomes growth also turned non-negative to 0% for the first time since January 2017. ING forecast was -0.7% while consensus was -0.5%.

✓ Unemployment rate edged higher, but only marginally

The non-seasonally adjusted unemployment rate rose only modestly from 5.1% to 5.2%. Again, this was below ING forecast of 5.4% and the consensus 5.3%, meaning that the seasonally-adjusted print dipped below 5% from 5.1% in December 2017.

This supports wage growth but also serves as a source of concern for the CBR with respect to inflation risks.

✓ Consumption stays on track

Our proxy for private consumption accelerated further from 2.5% YoY to 2.6% which is the highest pace for the post-crisis period.

This was due to the surprising resistance in retail sales which slowed down only marginally from 3.1% to 2.8%. ING forecast is 1% while consensus was 2.4% despite a high comparison base.

Also, services consumption firmed up from 0.1% to 2.1% in January 2018. It seems that the positive momentum from strong real wages growth supported by expanding retail loans and improving consumer confidence all passed-through to consumption and offset the base effect.

Other activity data was mixed, PPI inflation muted on energy

Construction growth weakened from 1.3% to 0.2%. ING forecast was 3.5% while consensus was 2.3%, which means a loss of momentum in early 2018 which was required to help the investments recovery. Cargo shipments, on the contrary, came better at 0.9% than the expected construction of 1.3%. Overall, this mix of results looks neutral to us.

Also, producer price growth (PPI) surprised on the downside at 1.3%MoM/5%YoY (ING 1.8%/6.8%, consensus 1.3%/6.4%) despite a 1.1%MoM growth in mining sector prices. A 0.1%MoM growth in manufacturing helped, but was mostly a story of falling gasoline prices on the back of accelerating prices (from 0.1% to 0.7%) on core manufacturing goods (excl. oil refinery).

How to read the data?

The positive January data, especially on the consumption and industrial production side, are likely to ease concerns about the GDP outlook.

Moreover, low unemployment, strengthening real wage growth and picking up PPI inflation in core manufacturing goods may keep the Central Bank of Russia (CBR) focussed on inflation risks. For now, they don't look material for the Bank to re-think its "faster policy normalisation" stance after the February 2018 meeting.

It would also be strange to read from one-month figures, and there are questions on

investments growth. But if the consumption trends continue and investments pick up, the CBR may easily focus on 25bp, not 50bp, as the primary step for the policy easing expected in coming months and pauses at some meetings in 2H18 might also be considered.

This is in line with our view of the CBR rate falling to 6.50% by December 2018 vs 7.50% now.

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