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Russia economic note



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Introduction

This is a short extra summer note providing you with the latest June Russian economic indicators with a short analysis. We mention several issues which we will analyse in more detail in our regular, scheduled Russia report to be published in mid-September.

The latest monthly figures (June 2013) reported below indicate again that the Russian economy is surviving but not gaining much traction; a solid sustainable recovery or stabilisation is still elusive. The dependence on consumer spending is highlighted again as industrial and investment figures disappoint. But some on-going US/European economic stabilisation would support the oil price and Russian exports which are still sagging in negative territory. A number of Russian domestic factors could also help the economy in the second half of the year (see below).

Table: macro-economic data 2011-13: consumer-related statistics by year and monthly

	2011	2012												2013					
	year	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June
Disposable income	2.8	2.0	3.1	2.6	2.1	3.6	4.6	2.2	7.2	3.8	3.5	6.7	4.9	0.7	5.7	8.3	7.3	-1.3	2.2
Real wages	4.9	9.1	13.3	9.0	10.4	12.4	12.9	8.1	7.3	4.0	5.2	7.3	5.0	8.0	5.2	5.1	4.2	5.7	6.0
Real retail sales	7.2	6.8	7.7	7.3	6.4	6.8	6.9	5.4	4.3	4.4	3.8	4.4	5.0	3.3	3.0	4.4	4.1	2.9	3.5
Unemployment	6.5	6.6	6.5	6.5	5.8	5.4	5.4	5.4	5.2	5.2	5.3	5.4	5.3	6.0	5.8	5.7	5.6	5.2	5.4
Industrial output	4.7	3.8	6.5	2.2	1.3	3.7	1.9	3.4	2.1	2.0	1.8	1.9	1.4	-0.8	-2.1	2.6	2.3	-4.1	0.1
Fixed investment	8.0	15.6	15.1	4.9	7.8	7.7	4.7	3.8	2.3	-1.3	4.9	1.2	-0.7	1.1	0.3	-0.8	-0.7	0.4	-3.7
Consumer prices	6.1	4.2	3.7	3.7	3.6	3.6	4.3	5.6	5.9	6.6	6.5	6.5	6.6	7.1	7.3	7.0	7.2	7.4	6.9
Budget deficit (running)	-0.2	0.5	0.3	0.2	0.3	0.1	-0.1	0.0	0.3	-0.1	-0.5	-0.3	0.0	-0.2	0.0	-0.1	-0.1	-0.2	-0.2
Notes: * month compared with same month of previous year																			

Rouble update

- The rouble is wobbling again but, as we reported in our June rouble Alert paper, this again seems to be part of a general emerging market currency softening: the Indian rupee keeps touching a record low 60 to the US dollar and is only stopped from further weakening by the Reserve Bank of India; the Brazilian real is close to a record low of 3 to the Euro and the Ukrainian hryvnia is fluctuating wildly but within a tightly controlled band protected by the National Bank using its reserves to stop the currency falling further. We outlined all the key drivers to the rouble in our June rouble Alert and we did warn of further mild/moderate weakening. The key issue to note is that it seems that rouble trends are now detached from the oil price which is a major factor to consider: oil is at $ 107 but the rouble is at 32.8 to the dollar and 43.6 to the Euro. The Central Bank can live with a moderately weaken rouble (bad news) but will not tolerate a sustained plunge (good news). But as we noted before, the rouble looks like trading in a new weaker band of 32.5 to 33.5 to the dollar in the coming months with risks balanced to either side (slightly stronger or slightly weaker)

Current economic and business issues and what we will review in our September paper

- Latest GDP trends: our estimate of 2.8% this year could be fractionally high but the government is planning more expenditure: a few good things could happen in the second half of the year and the Ministry of finance is thinking of raising its own GDP estimate for this year.

- The content of the budget framework for 2014-16 which is working its way through the Duma has the potential to be extremely negative: the proportion of GDP targeted for defence spending is set to surge while health and education spending in terms of GDP is set to shrink. This would prove hugely mis-guided and seems to fly in the face of the social spending of the last 2-3 years. More on this next month.

- Industrial and investment numbers are not turning out well at 0.1% and -3.7% respectively in June.

- The government plans to use some of its reserves from the Welfare Fund to boost infrastructure spending alter this year and in 2014.

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- The economy is stuck in a twin-track mode with consumer-related sectors doing better than industry/investment. Real wages (up 6% in June) and retail sales (+3.5%) both posted a small rally in the month.

- Consumer confidence is curiously improving or at least stable at good levels and one would think the recent economic softening would have brought this indicator down but apparently not yet. We will examine why next month.

- We will assess inflation developments: as we expected, inflation is starting to fall (6.9%) in June. A good harvest will bring prices down further and lower inflation will help real wages which ticked up to 6% in June.

- Unemployment is under control and will also ensure that wages stay solid.

- Western companies in many sectors face a new normal with top-line sales down often from 11-14% to 6-9% in consumer goods and some B2B firms see similar trends but others in this sector are holding up a bit better which contradicts some of the economic trends outlined above. IT sales have seen the biggest slump overt the last 18 months while pharmaceuticals and health are holding up their sales quite well sales but also with some marginal softening.

- Executives are talking about the need to communicate a new normal to headquarters and we will discuss this in great detail with many corporate “stories” about what is going on.

- Executives are determined to avoid any repetition of a "budget trap” whereby they set too high figures and then get caught in any global/regional downward slump; this happened for many executives in autumn 2012 when setting targets for 2013.

- To ensure they meet targets, MDs will want to examine their regional plans within Russia. We will highlight a few current strategies and thinking.

- We will also go through in some detail the results of our twice annual Survey.

- Downtradng is playing more of a role in the market recently and again our Survey results will be provided.

- In the HR sector managing directors are talking about the need to have staff and managers who can operate in this new normal of a more challenging business environment. One MD commented in July, “I need rowers rather than surfers” by which he meant that he needs staff who can sit in the rowing boat, get down to business and row the boat in tougher times; he now has less need for surf-boarders who fly along the top of business in good, sunny times developing fast-growing business.

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