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30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Here We Go!

By The Moscow Times

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Earlier this year I argued that the fate of Russia's economy was all about how much confidence the average Russian has in the future, and that once people recovered from the shock and fear of the economic collapse the economy would pick up on the back of spending. The bottom line: even if the crisis was very nasty and undermined the population's confidence that Russia is on the "right track," they still want those toys and trappings of capitalism, and if they have money in the bank (or can borrow) they will buy them.

The latest Rosstat results released for May show that confidence is returning fast in the crucial retail segment of the economy.

Below are the details from a note from VTB Capital. The key point to note, however, is that both retail spending and consumer credit have surged. Even more significant is that investment was also up more than expected. This last one is also very important as it means companies are building to meet future demand and this starts the virtuous circle of profits-growth- investment-wage increases-spending-profits going, which is what spurred a rapid acceleration of the economy in 2006-2008.

The one disappointment is that corporate lending is still below par and capital flight is high (although most people seem to believe that it will stop in July). This is clearly driven by the political uncertainty ahead of the elections, as businessmen are not sure who will be in charge. But given that more and more people are predicting that the Medvedev/Putin tandem will remain in place (Renaissance Capital released a note today saying exactly this), I think these nerves are only temporary and a back log of investment plans and corporate lending will be unleashed in March next year, giving the economy another shot of adrenalin.

So, all in all, things are shaping up as expected for a strong second half of the year with the drag caused by the elections.

Here is what Alexandra Evtifyeva of VTB Capital had to say about the latest results:

"Rosstat has released economic data for May that reveal an unexpected surge in investment and robust growth in consumption accompanied by a declining savings rate and labor market tightening. The combination of a rebound in investment and the falling savings rate might be an additional argument for the CBR to resume monetary policy tightening in the autumn.

"Consumption growth robust, labor market tightens. Retail sales increased 5.5% YoY in May, almost unchanged from 5.6% YoY in April despite the continuing decline in disposable income (-7.7% YoY in May) and subdued real wages growth (2.6% YoY). The robust consumption growth is supported by the acceleration in retail lending (22.8% YoY in May) and a tightening labor market. The unemployment rate dropped 0.8pp to 6.4% in May, more than the usual seasonal pattern would suggest.

"Investment surges. Fixed capital investment unexpectedly surged 7.4% YoY in May, significantly above consensus (Bloomberg 4.0% YoY) and following rather moderate growth of 2.2% YoY in April.

"The recent data is encouraging, particularly as it happens against the background of lingering capital outflows and rather tepid corporate lending growth (16.6% YoY in May). It remains to be seen how sustainable the recent surge in investment is, although this year's investment pattern is very similar to last year's, when investment recovered in April-May.

The views expressed in opinion pieces do not necessarily reflect the position of The Moscow Times.