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Wage Growth Fuels Consumption Boom

By The Moscow Times

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Rapid wage growth is fueling a consumption boom that has enabled the economy to shrug off falling oil prices and weak exports, but investment growth is slowing and industrial production stagnating.

The mismatch threatens to fuel inflation, adding to the dilemma facing the Central Bank as it ponders its next interest rate move.

Data released by the State Statistics Service on Wednesday showed that already-rapid wage growth accelerated further in June. Wages rose by 17.7 percent in nominal terms, and 12.9 percent in real terms, from a year earlier.

That reflects a tight labor market, with the unemployment rate, 5.4 percent in May and June, at its lowest for four years.

The rise in household incomes continued to fuel strong growth in retail sales, which were up by 6.9 percent in June, slightly above analysts' forecasts.

"The Russian growth story is now consumption growth," said Natalya Orlova, chief economist at Alfa Bank.

The rises in wages and consumption help to explain why the economy is proving remarkably resilient to a global slowdown that is reducing prices for commodity exports.

But the latest data also highlighted the imbalance between healthy household consumption and a struggling corporate sector.

Capital investment by Russian companies rose by 4.7 percent in June — a relatively disappointing figure that came below analysts' forecasts, and represented a decline on 7.7 percent growth seen in May.

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