

Retail Growth Slows for July

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Retail sales slowed sharply in July to 5.1 percent year-on-year growth as rising inflation cut spending power, according to monthly data released by the State Statistics Service on Monday.

Consumer spending is widely considered to have been the bedrock of Russia's economic success in recent years, and the drop in retail sales to their lowest rate since January 2011 prompted economists to warn of the long-term macroeconomic implications.

The figures came as a "negative surprise," Citibank analysts said in a note to investors. In an immediate market reaction, the MICEX index had fallen 1.8 percent to 1,447.65 by midday Monday. Dollar-denominated RTS was also down 1.8 percent in the same period, to 1,396.72.

"The broad based slowdown of the Russian economy ... in July supports our call for sub par gross domestic product growth below 3 percent in the second half of 2012," Alexander Morozov, chief economist at HSBC in Moscow, wrote in a note Monday.

Inflation has quickened in recent months as worries over the drought-blighted harvest increase and utility tariff rises, which were delayed until July as a populist move in the run up to the March presidential election, begin to bite.

"The retail sales figure was mainly hit via a food channel and rebounding food prices," said Dmitry Polevoy, chief economist at ING Russia in a note to investors Monday. Food sales slowed to 1.3 percent year-on-year growth in July from 4 percent year-on-year growth in June.

The unemployment rate remained steady in July at 5.4 percent and real wages grew at 10.2 percent year-on-year, according to the State Statistics Service.

While the prospect of a slowing economy might ordinarily be expected to weaken the resolve of the Central Bank to hike rates to curb inflation, experts said that they still expected action at the next policy meeting in September.

"Despite a weaker than expected macroeconomic release for July, we believe that the authorities will remain committed to tightening monetary policy responding to a significant inflation spike," HSBC's Morozov said.

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