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January Data Bolsters Monetary Easing Argument

By The Moscow Times

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Russia unveiled a slew of disappointing economic data for January on Tuesday, adding to pressure on the Central Bank to soften monetary policy and aid growth as soon as inflation pressures abate.

Retail sales growth slowed to its lowest in nearly two years while the jobless rate topped forecasts, the data showed, adding to news that industrial output contracted last month for the first time in more than three years.

Economists had expected that consumer demand, which accounts for around 60 percent of Russia's gross domestic product, would keep up its solid recent performance and help the economy to grow above 3 percent this year.

Slowing growth in store sales came despite a solid increase in real wages, of 8 percent, in annual terms in January.

The poor batch of indicators gives ammunition to government officials who have urged the Central Bank to start cutting rates to boost lending and, in turn, spending and investment.

"Weakness on the consumption side could be a concern for the Central Bank, which has so far been using consumers' strength as grounds for a stable growth outlook," Dmitry Polevoy, an economist at ING in Moscow, said in a note.

The Central Bank has defended its commitment to shift the main focus of monetary policy to inflation from the ruble's exchange rate.

But with the disappointing data, the question is now how soon the Central Bank will give in, analysts said.

"The Central Bank needs to cut rates," said Vladimir Osakovskiy, economist at Bank of America Merrill Lynch.

"However, this data is not enough to make the regulator do it. Inflation should start to slow and that's why February CPI data will be very important."

Analysts polled last month expect the Central Bank to start easing its policy in the third quarter.

Annual consumer price inflation will rise to between 7.3 and 7.4 percent in February from 7.1 percent in January, the Economic Development Ministry forecasted last week. This would keep inflation above its 5 to 6 percent target range for the year.

Central Bank Chairman Sergei Ignatyev said last week that should inflation come down, a cut in rates would be possible, but he has also said in the past that other indicators, such as unemployment will need to be considered.

January data showed unemployment rising to 6 percent from 5.3 percent. While a spike is typical for January, if the number stays the same or rises, it will add to arguments for a rate cut.

Investment, sluggish in the second half of 2012, surprised on the upside, rising by 1.1 percent, better than the 0.5 percent expected by analysts, but below rates seen in early 2012.

Stronger investment numbers are expected ahead of the Sochi Winter Olympics in February of 2014.

"Russia needs significant investments to its production capacity, which is rapidly deteriorating," analysts at Danske Bank in Copenhagen wrote in a note this week.

"We expect fixed investments to grow only 4.0 to 4.5 percent, year on year, in 2013-14, which means that the potential growth rate of the economy is edging down towards 2.5 to 3.0 percent of annual GDP growth for the next decade."

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