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Russian Economic Slump Gained Pace in February, Data Shows

By The Moscow Times

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Last week the Central Bank cut its main lending rate for the second time this year.

Russia saw more steep declines in key economic indicators in February, with slumping retail sales and real wages and rising unemployment pointing to a rapid economic contraction, data showed Thursday.

Economists had expected bleak figures, as Western sanctions and low oil prices push the economy into recession, but the data was somewhat worse than predicted in a Reuters poll last month.

Retail sales fell by 7.7 percent year-on-year in February, while real wages plunged by 9.9 percent, showing how high inflation is biting deeply into consumers' pay packets.

"The retail sales drop is perhaps a bit larger [than expected], but overall everything was pointing to double-digit drops in real wages and consumption somewhere down the road. It's

just happening a bit faster than some expected," said Vladimir Kolychev, chief economist at VTB Capital.

"The story is that domestic demand is collapsing because of the pressure on consumer demand because of the ruble devaluation. That will continue to be the case at least over this year," said Kolychev.

Capital investment by Russian companies also continued to slide, falling by 6.5 percent year-on-year in February. Unemployment rose to 5.8 percent from 5.5 percent in January.

The latest data supports expectations that the economy will see a sharp contraction in 2015. While the government forecasts a 3 percent decline in gross domestic product this year, many other analysts anticipate a bigger slump.

The data also helps explain why economic growth worries are trumping policymakers' concerns about inflation, although the latter is running at a 13-year high of 16.7 percent.

Last week the Central Bank cut its main lending rate for the second time this year, sending a strong signal that it now sees the declining economy as a more serious worry than high inflation.

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