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INDEPENDENT NEWS FROM RUSSIA

Russia's Economy Shows Signs of Recovery in May

Official statistics indicate that retail sales are increasing.

By bne IntelliNews

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Real wages have been stagnating for almost six years. **Yegor Aleyev / TASS**

Russia's economy is growing, albeit slowly, VTB Capital (VTBC) said in a note following the release of the Russian Federal Statistics Service, or Rosstat's May statistics.

The first tier data for May shows that retail sales rose 1.4 percent year-on-year, with the turnover in the food and non-food segments increasing modestly, by 1.7 percent and 1.0 percent year-on-year, respectively.

Real wages have been stagnating for almost six years now, and real wages growth decelerated again from 3.1 percent year-on-year in April to 2.8 percent year-on-year in May. However, economists warn that these flash estimates tend to be revised.

And despite a surge in completion in the residential sector — up by almost 30 percent in the first quarter — the output in construction remained almost flat in May at 0.2 percent year-on-year, according to Alexander Isakov, chief economist at VTB Capital.

The stagnation in real wage growth has been depressing the retail sector, where turnover grew by 1.4 percent year-on-year in May, up slightly from 1.2 percent year-on-year in the previous month.

"The lacklustre growth reflects disposable income growth being down 2.3 percent year-on-year in 1Q19 (the last value available). This anemic demand growth is likely to persist throughout the year, we believe, as long as the 2018 base effects are at play (higher inflation, no extra-public sector wage indexations etc.)" said Isakov.

Real wages are rising, but too slowly, as with economic growth of only 0.5 percent in the first quarter year-on-year there is little momentum in the economy. Real wages increased by 2.8 percent year-on-year in May, while growth in April was revised up from the flash estimate of 1.6 percent year-on-year to 3.1 percent year-on-year.

"We note that personal income tax revenues have been growing faster than the average nominal wage recently. In April, the former grew 15.8 percent year-on-year, while the latter added 8.4 percent year-on-year," said Isakov.

Construction output — one of the three main drivers of economic growth — remained stagnant with growth of just 0.2 percent year-on-year in May. The highest growth registered so far this year has been 0.3 percent year-on-year, in February.

"Nonetheless, the surge in construction-related products might foreshadow an increase in construction activity," says Isakov.

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