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INDEPENDENT NEWS FROM RUSSIA

Russia’s Retailers Show Signs of Revival

Footfall in malls hit a five-year high and fresh government spending should boost consumption.

By Ben Aris for bne IntelliNews

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Footfall in Moscow's top malls climbed to its highest level in five years in the busy New Year shopping season. **Pixabay**

Traffic in Russia’s shopping malls bounced back to its highest level in five years at the end of 2019 after under-performing for almost the whole year.

The Watcom Shopping Index — a real-time measurement of the footfall in Moscow’s leading shopping malls — posted a score of 647 in the last week of the year, up on the 625 recorded in 2018, and higher than any final-week reading since 2013. The week before the start of the New Year gift-giving season is the biggest shopping week of the year in Russia, and a crucial one for the country’s retailers.

“Consumer activity showed growth for the first time since 2014 in 2019, according to Watcom Shopping Index data,” said Watcom Group’s general director Roman Skorokhodov. “The low dynamics of commercial space commissioning, as well as other factors, contributed to shopping index growth in Moscow in the quarter by 5.2%. In Russia on the whole it grew by 1.1%, and as a result, for the whole year the whole country was down by 0.7%.”

Careful consumption

Skorokhodov says that attitudes have changed and consumers are saving less and have switched to “careful consumption” mode. At the same time, the leading retailers are running non-stop promotions, cash-back schemes and have been investing in entertainment in shopping centres to pull the punters in. Trips to the mall probably got a fillip from the unusually cold 2019 summer as well, says Skorokhodov.

“People have become used to the economic situation and started perceiving it as a new reality. They visit shopping centres for leisure and entertainment, but cannot resist if there is an attractive discount, sometimes even spending more than planned,” he said.

Over the last two years the index has been falling steadily and under-performing earlier years thanks to almost six years of stagnant real income growth.

Traffic has been further pushed down by the rapid growth of e-commerce as shoppers increasingly order their goods online. E-commerce currently accounts for 4.5% of retail turnover, but is growing at over 20% a year and the share of e-commerce is expected to double in the next three years.

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These factors have combined to keep customers away from the stores. The index shows that shopping in traditional brick-and-mortar venues reached a nadir in 2018, but showed something of a revival last year.

While the Watcom index started 2019 at the same level as 2018 — the worst year since the index was founded in 2014 — by the middle of the year the volumes of foot traffic began to improve, although remained below those of the previous four years.

However, in the last three months of 2019, recorded footfall took off to match past holiday shopping binges, hitting the highest levels seen in six years.

Russia’s retail turnover was up 2.3% year-on-year in November, the last data available, after expanding softly all year. Consumer demand began to recover in October thanks to the first increase in real incomes of 3.1% in that month, data from Russia’s statistics agency shows.

Retail recovery

The outlook for retail in 2020 is good. For the first week of 2020 the index posted 504, modestly ahead of the results for the last three years (475, 495 and 496), but lagging the figures posted in 2014-16.

Investors clearly think that the retail sector will continue to improve this year on the back of the large rises in social spending announced by Russian President Vladimir Putin during his state of the nation speech on Jan. 15. Consumer stocks have jumped in value in the first week of the year in anticipation of a promised tripling of social spending in 2019 that should feed through to the bottom line of the major retailers.

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