



Bank of Russia



TALKING TRENDS
Economy and markets

Research and Forecasting Department Bulletin

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The views and recommendations expressed in the bulletin do not necessarily reflect the official position of the Bank of Russia.

Please send your comments and suggestions to djp1@cbr.ru

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Executive summary

Monthly summary

- Going by leading indicators, the recovery of economic activity came to a halt in September, with early signs of some deterioration emerging by the end of the month. The economy will have to adjust to new supply and demand shocks. Inflationary pressures strengthened throughout September. Importantly, the mixed impact of a drop in both consumer demand and the supply of goods and services made it difficult to forecast their aggregate impact on consumer price growth moving forward.
 - The overall Russian economy has showed a strong ability to adapt to foreign trade and financial restrictions. A substantial proportion of businesses were successful at changing the geography of their supplies, having secured new suppliers and solved logistics problems. New challenges to production processes and sustainable output targets come from the partial mobilisation in a low unemployment environment, especially in the case of SMEs, with negative implications for consumer and business confidence.
 - Monthly consumer prices went into reverse in September to show an upward movement. Previously, that had been signalled by core inflation indicators known to be less exposed to the effects of one-off factors. The current forecast of the Bank of Russia assumes a further strengthening of inflationary pressures. This finding is supported by, among other things, recent trends in lending and money supply as well as the updated budget projections for 2022–2023. Inflation is expected to return to 4% in 2024 under the influence of the monetary policy stance.
 - A strong rise was seen in yields on Russian ruble bonds in August and even more distinctively in September, on the back of increased uncertainty and risks including those related to fiscal spending, as well on expectations for the key rate reduction cycle to end.

In focus: A changing demand pattern as an inflation driver

- The steep decline in consumer demand in Q2 gave way to a recovery in Q3, reflecting movements in household incomes and easier monetary conditions. This involved a changing consumption structure.
- The services sector put in the most sustainable performance in 2022. The non-food sector underperformed strongest of all against the pre-crisis levels. Products of familiar brands are in scarce supply exactly in its segments that endured an exodus of suppliers and retailers from unfriendly countries.
- This may put the non-food segment under further inflationary pressure even if non-food spending remains low. Concurrently, a switch of demand to other segments, services in the first place, is set to fuel inflation. This suggests that a changing structure of demand – even when income levels remain steady – can create further inflationary pressure.

1. Inflation

While a downward trend of annual inflation continued, its weekly and monthly change showed a reversal from decline to growth in September. This reversal arises from four factors. First, the effect of the pass-through of ruble strengthening in Q2 to prices continues to subside. Second, the key rate cut must have exerted an upward pressure on consumer prices beginning from Q2. Third, the seasonal decline in fruit and vegetable prices has come to an end. Fourth, and most important for further CPI performance, prices in the least volatile consumer basket components have continued to rise at an increased rate.

The current lending performance, as well as the 2022 and 2023 budget parameters, are set to accelerate money supply expansion, implying some strengthening of inflationary pressure in the coming quarters. Despite this, the annual inflation slowdown will continue until April 2023 on a high base effect. The impact of the partial mobilisation and rising uncertainty on consumer and investment demand, loan supply and demand, as well as the labour market, wages, and household income, are yet to be assessed. Overall, they may come out as either disinflationary or proinflationary. Moreover, the direction of their effect may vary on different time horizons.

1.1. Month-on-month consumer price growth resumes in September

- September saw a trend towards a gradual price movement reversal as the impact of disinflationary factors operating in the summer month subsided. Price movement reversal is seen across a wide range of goods and services.
- That said, the impact of one-off proinflationary factors in the services segment made itself felt in September, while the end of the year is expected to see further price rise acceleration prompted by the indexation of communal services prices. The direct and indirect effects of this indexation will add 0.6 pp (to 1.1 pp including indirect effects) to inflation for 2022 but will subtract 0.5 pp from price growth in 2023.
- A consumer sentiment change late in September may slow price rise acceleration in the coming months. Steady income performance, including thanks to a package of social support measures in place, will bring consumption back to normal.

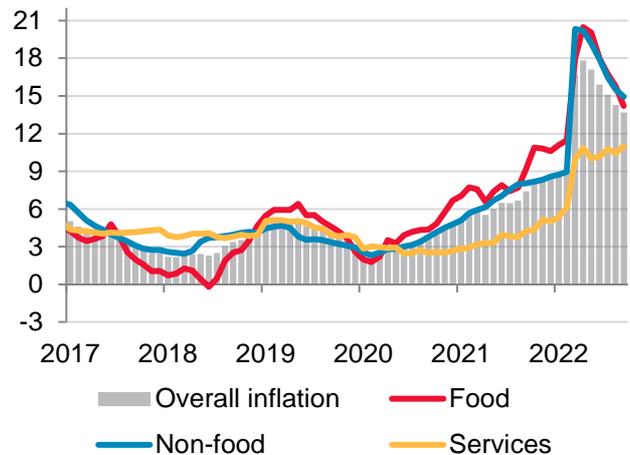
A reversal of month-on-month price movements which began in August accelerated in September. Prices rose for the first time since May in seasonally adjusted terms: the overall level of consumer prices went up 3.4% MoM SAAR in September after dropping 0.6% MoM SAAR in August (Figure 3). Nevertheless, annual inflation deceleration continues while the fast pace of monthly price rises in H2 2021 is leaving the calculation base: price rises slowed to 13.7% in September from 14.3% in August and 15.1% in July. While inflation notably decelerated in the goods market, the pace of annual price rises remained all but unchanged in the services sector. (Figure 1, Table 1).

Table 1. Inflation and its components

	Sept. 2020	Sept. 2021	July 2022	Aug. 2022	Sept. 2022
% YoY					
All goods and services	3.7	7.4	15.1	14.3	13.7
Core inflation	3.3	7.6	18.4	17.7	17.1
Food	4.4	9.2	16.8	15.8	14.2
Non-food goods	3.8	8.1	16.5	15.5	14.9
Services	2.5	4.2	10.8	10.5	11.0
% MoM SAAR					
All goods and services	2.6	11.0	-3.1	-0.6	3.4
Core inflation	3.4	9.6	0.4	1.1	3.0
Food	1.2	19.5	-8.1	-2.4	0.4
- Net of fruit and vegetables	3.1	10.5	-0.3	-0.1	-0.1
Non-food goods	5.9	7.0	-4.1	-0.6	0.9
- Net of refined petroleum products and tobacco	6.5	8.8	-5.0	-1.7	0.2
Services	0.5	5.1	6.8	1.8	11.0
- Net of municipal and housing services	-1.7	5.6	6.1	0.2	15.0

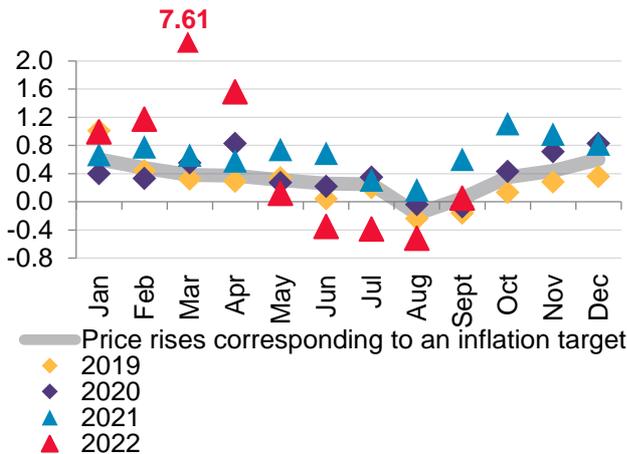
Sources: Rosstat, R&F Department estimate.

Figure 1. Inflation and its components, % YoY



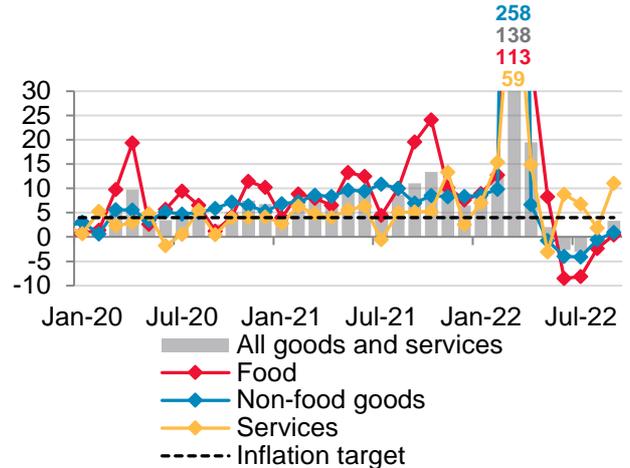
Sources: Rosstat.

Figure 2. Price rises corresponding to an inflation rate of 4%, % MoM



Sources: Rosstat, R&F Department estimate.

Figure 3. Seasonally adjusted price growth, % MoM SAAR



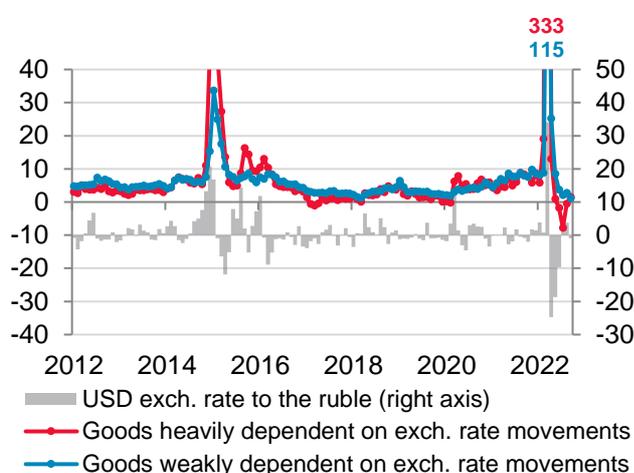
Sources: Rosstat, R&F Department estimate.

After a drop in the summer months, prices of both food and non-food goods began to rise in September, by 0.4% and 0.9% MoM SAAR, respectively. The pace of services price rises soared to 11.0% MoM SAAR from 1.8% MoM SAAR in August, in addition to the overall increased pace of price growth in this segment, driven by one-off factors, such as an increase in the prices of foreign tourism and communications services, as well as those of the motor third party liability insurance policy.

The effect of a key temporary disinflationary factor in recent months has petered out: fruit and vegetable prices climbed in September for the first time from March, adding 0.5% after a 1.8% MoM SA drop in August. That said, real-time statistics suggest an earlier than seasonably normal increase in fruit and vegetable prices at the start of Q4, which is set to have a proinflationary effect on overall price movements.

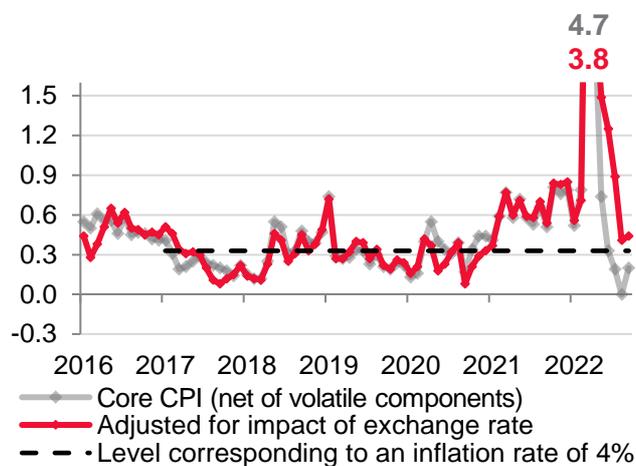
The impact of another substantial temporary disinflationary factor, that of ruble strengthening in April–June, is also gradually subsiding. Based on our estimate, a fall in the prices of goods highly dependent on exchange rate movements notably slowed in August–September (Figure). The estimate of modified core CPI, net of volatile components, adjusted for the impact of the exchange rate (given a faster pass-through of exchange rate moves to prices) has dropped significantly in recent months (Figure). Meanwhile, its reading remained above the 4% target in annualised terms. As the ruble exchange rate stabilises, the disinflationary impact of the pass-through will continue to fade, possibly coming to an end by the end of the year. All other things being equal, this may spark price rise acceleration.

Figure 4. The US dollar exchange rate to the ruble (%) and median CPI, % MoM SAAR



Sources: Rosstat, R&F Department estimate.

Figure 5. CPI net of volatile components, % MoM SAAR



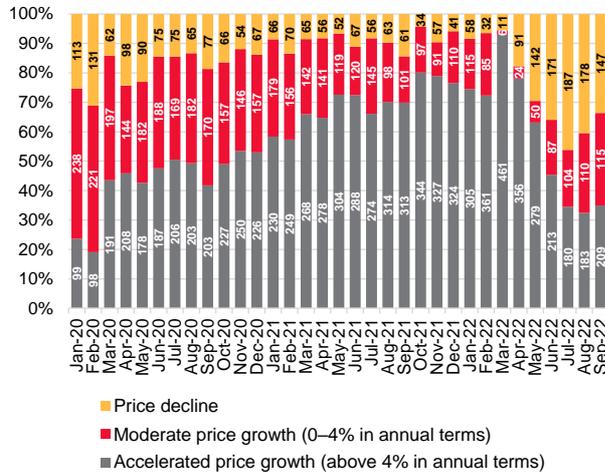
Sources: Rosstat, R&F Department estimate.

The price movement reversal is seen across a wide range of goods and services. The number and weight in the CPI of items whose prices were falling¹, are gradually declining, while the share of items whose price rises are estimated as moderate is growing (0–4% in annual terms, Figure 6). The distribution median for maximally disaggregated components has increased in goods items (but has remained below 4% SAAR), lying just above 4% SAAR in services (Figure 7).

Possible continuation of elevated inflationary pressure (above 4%) is also evidenced by the estimate of trend inflation, which stood at 8.7% in September after 8.8% in August (Figure 8).

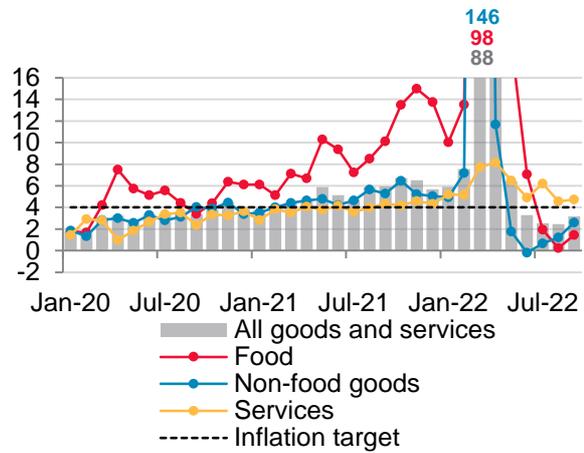
¹ Exclusive of fruit and vegetables and regulated services.

Figure 6. Total weight of goods and services (net of fruit and vegetables and regulated services) distributed based on seasonally adjusted pace of price rises



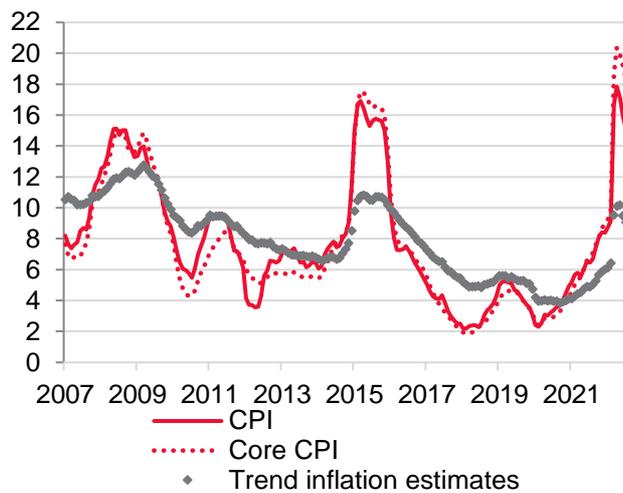
Note. Figures stand for the number of items.
Sources: Rosstat, R&F Department estimates.

Figure 7. Distribution medians calculated on disaggregated components*, % MoM SAAR



* 558 components in the 2022 basket.
Sources: Rosstat, R&F Department estimates.

Figure 8. CPI, Core CPI and Bank of Russia historical estimates of trend inflation², % YoY

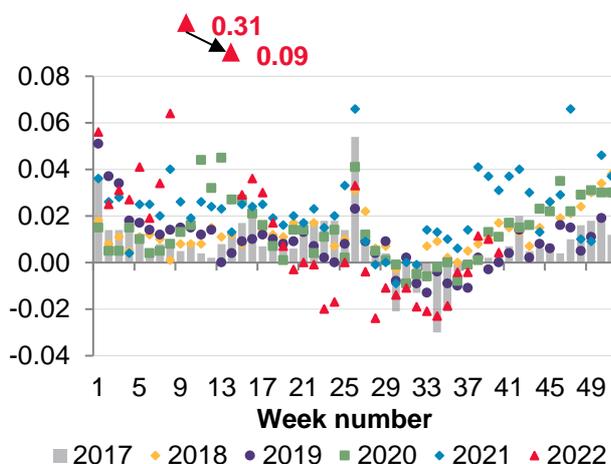


Sources: Rosstat, R&F Department estimates.

Week-on-week price rises slowed at the start of October (Figure 9, Figure 10). A in consumer behaviour change and a savings ratio increase may restrain a price rise acceleration trend which emerged in September. But this effect may be short-lived. Amid steady income performance, including thanks to a package of social support measures in place, consumption can quickly come back to normal. Given the continuation of supply-side constraints, this implies a proinflationary background on a horizon of monetary policy implementation.

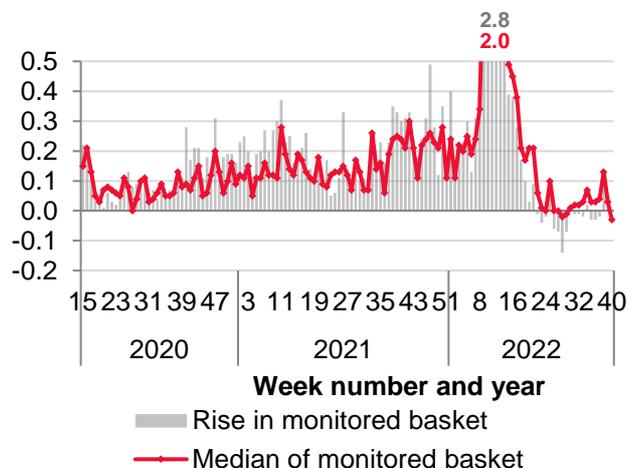
² This trend inflation indicator is calculated over a rolling five-year period.

Figure 9. Average daily price growth, %



Sources: Rosstat, R&F Department estimates.

Figure 10. Pace of price increases and distribution median of weekly price rises, %



Note. The estimation is based on an enlarged list of goods and services net of fruit and vegetables and regulated services prices.

Sources: Rosstat, R&F Department estimates.

Estimating the effect of regulated services price indexation on inflation

Russia's Ministry of Economic Development has [announced](#) that the indexation of housing and communal services prices will be moved from July 2023 to December 2022.³ The price indexation will be capped at 9% and apply to cold and hot water, electricity, natural gas, and solid communal waste. According to the [Forecast](#) of Social and Economic Development until 2025, Housing and communal services price indexation in 2024–2025 will also exceed the 4% inflation target (a household's total payment for communal services will be raised by 6.3% in July 2024 and 5.3% in July 2025). Regulated services price indexation will also exceed 4% for domestic industrial enterprises.

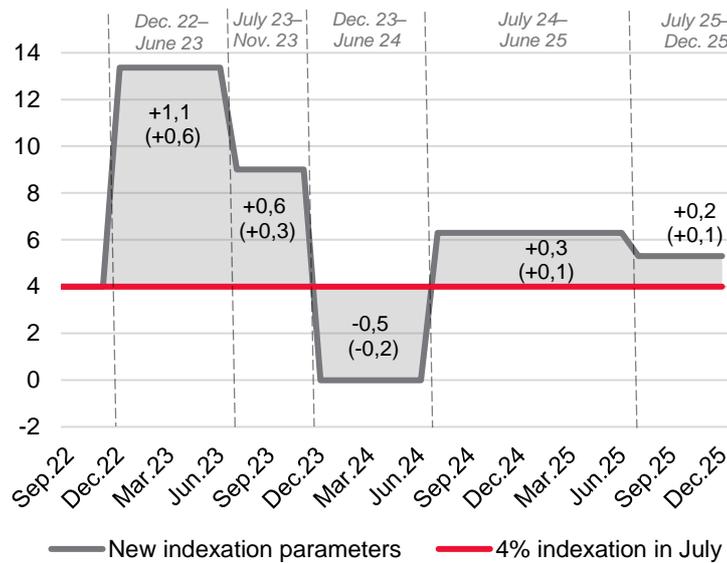
Based on the weight of communal services in the basket used in calculating the CPI (6.1%), the direct effect of this indexation on inflation in December this year is estimated at 0.6 pp (Figure 11). This effect will be included in the calculation base of annual inflation until July 2023. Since no indexation is planned for 2023, an addition to annual inflation (relative to a scenario with usual seasonal indexation) from July through November will shrink to 0.3 pp, while the effect will be opposite for the period of December 2023 through July 2024 (-0.2 pp). We do not expect a comparable increase in housing services prices, since they are not regulated as strictly as communal services and may in practice rise less.

The rise in regulated services prices will also translate into consumer price movements indirectly, via a rise in producer costs. Based on our estimate, a 1% increase in regulated

³ In addition to communal services prices, the Ministry of Economic Development forecast provides a plan for indexing rail transportation prices. An increase in passenger transportation prices in the regulated sector will add 0.02 pp to annual inflation in October–December 2022, 0.03 pp in January–September 2023, and 0.01 pp in October–December 2023.

services prices produces an overall 0.06 pp change in prices.⁴ That said, the month in which prices are indexed sees the greater part of the increase. Therefore, with secondary effects factored in, an additional impact of the announced schedule of services price indexation on annual inflation may equal +1.1 pp for 2022 and -0.5 pp for 2023 relative to the standard schedule of services price revision.

Figure 11. Increase in communal services prices, % YoY



Note. The numbers in the diagram denote the input of extra (i.e., additional to the 4% indexation in July) indexation of communal services prices to annual inflation. The numbers in brackets stand for a direct input calculated based on the weight of communal services in the CPI, the numbers outside brackets stand for the aggregate impact with secondary effects factored in.

Sources: RF Ministry of Economic Development, R&F Department estimates.

⁴ To assess the indirect effect of regulated producer prices, regression equations were estimated using seasonally adjusted monthly price rises net of regulated services for the consumers as the dependent variable, and the current and lagged values of the nominal effective exchange rate and integral indicator of a rise in the regulated producer prices as the explanatory variables.

2. Economic activity

The situation in the Russian economy continues to be determined by a number of supply-side shocks, the nature of their unfolding in time, Russian companies' ability to adapt to these shocks, and the scale of government support measures. Overall, one may note the success of companies' initial adaptation to "a new reality" as regards change in import and partially export logistics and signing of agreements with alternative suppliers of raw materials, supplies, and components. Also, the petroleum extraction and refining industries were able to maintain their production levels through ramping up supplies to alternative markets. The construction industry maintained its output in the face of adverse trends thanks to the completion of projects started earlier. All this ensured economic activity stabilisation and even some growth in the summer.

The economic activity decline resumed in the autumn, however, as uncertainty rose. Consumer activity started to weaken. Labour force contraction created risks to the continuity of some production processes. The aggravation of the situation with personnel shortages in the labour market will contain productivity growth going forward.

At the same time, the key negative effect of external restrictions on the petroleum industry and supply of investment and high-tech goods is probably yet to come. They will likely make themselves felt towards the end of the year and mostly in 2023. The Russian economy's transition to sustainable growth is unlikely to materialise until that time. In addition, the risks that foreign trade and financial restrictions in place will be toughened have increased further, which will amplify the adverse effect of supply-side shocks associated with them.

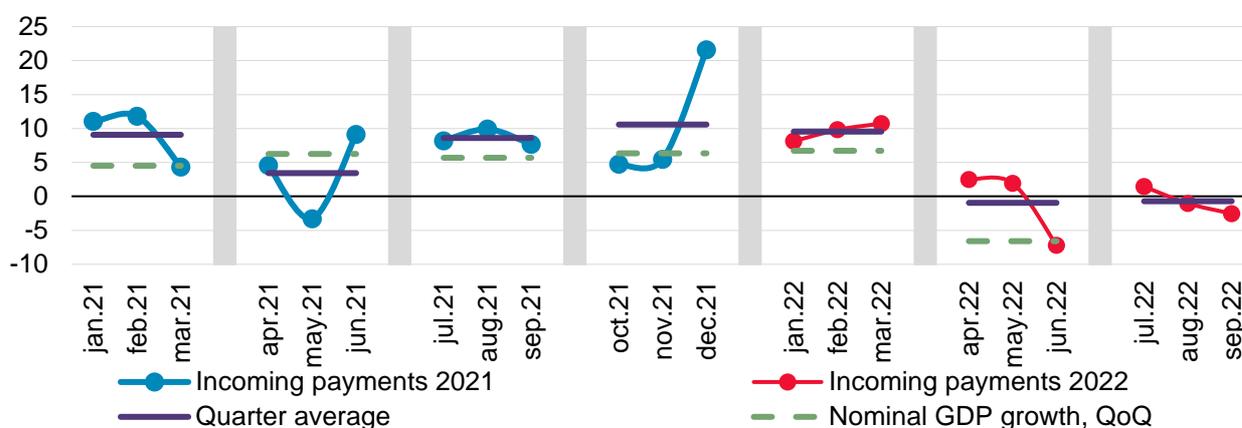
Monetary policy is not oriented to the aggregate output level and trends. Rather, it looks to whether aggregate demand is met by production potential and access of imports to the goods and services market. Changes in both of these are considerable in the current situation, which should be taken into account in decision-making.

2.1. Economy reorients itself to domestic demand

- After a sharp drop in Q2, the level of economic activity generally stabilised in Q3 (Figure 13). A variety of real-time indicators for September suggest its stabilisation on the August level or a minor decline (Figure 12). Industry-specific performance, however, continues to show [mixed trends](#), indicating that the process of the economy's restructuring varies across its sectors.
- Over the first two months of Q3, output was buttressed by positive trends in mining and quarrying and construction. The largest negative input to output came from wholesale trade, with the sales of natural gas accounting for a large share of it. Manufacturing sees a gradual output recovery continuing (Figure 16), but its trajectory is materially affected by highly volatile components, concentrated mainly in the segment of investment goods (Figure 17).

- At the same time, the reorientation of production to domestic demand⁵ and resilience to the ongoing shock of industries serving the private consumption buttress output in manufacturing: its year-over-year decline came in at just 1% in Q3. August's output expansion was posted in industries manufacturing beverages, soap, cosmetic and perfumery products, as well as passenger cars.
- Leading indicators (PMI, IEP) suggest possible manufacturing output growth in September amid a continued rise in new domestic orders (Figure 14). The end of Q3 will see agricultural output expansion registered – an all-time grain output high of 150 million tons is expected. According to the data of the Bank of Russia's payment system, September saw higher incoming payments relative to the Q2 level in a number of subindustries which showed to be resilient to a change in external conditions (manufacture of food products) or benefit from a change in the structure of consumer demand. The overall number, however, declined from that in July–August.
- The labour market situation remained stable. As contraction in the number of opened vacancies slowed and recruiting activity rebounded (Figure 21, Figure 22), unemployment hit an all-time low in August (Figure 19). Nominal wage growth remained stable (Figure 20).
- A change in consumer sentiment amid a rise in uncertainty may temporarily restrain the recovery of consumption at the start of Q4. The end of September saw households shift everyday consumption to a thrift mode, scrapping part of dispensable spending items (entertainment, taxi rides, etc.).
- The labour force contraction after the announcement of partial mobilisation may make it difficult for companies to address problems related to supply-side constraints, containing overall economic activity in the months to come.

Figure 12. Incoming payments growth⁶ relative to the previous quarter average weighted by industries' shares in gross value added, seasonally adjusted, %

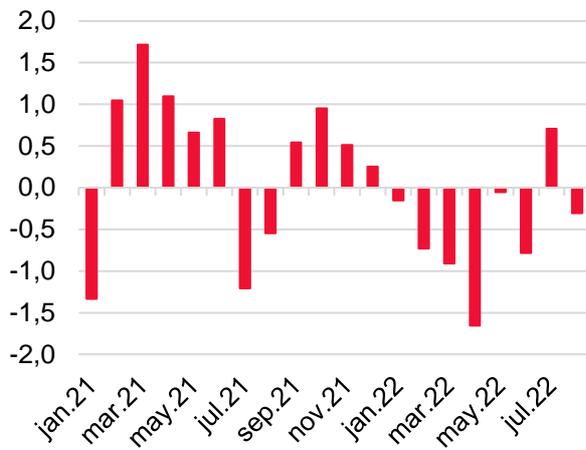


Sources: Bank of Russia, Monitoring of individual industries' financial flows.

⁵ Manufacture of machinery and equipment, electrical equipment, paper products, etc.

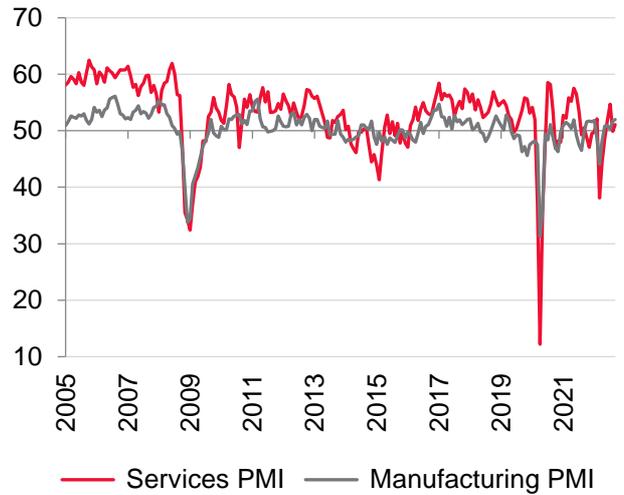
⁶ Growth means a percentage change of the sought value: $g = \frac{(x_1 - x_0)}{x_0} * 100$.

Figure 13. Output by core economic activity type, % MoM SA



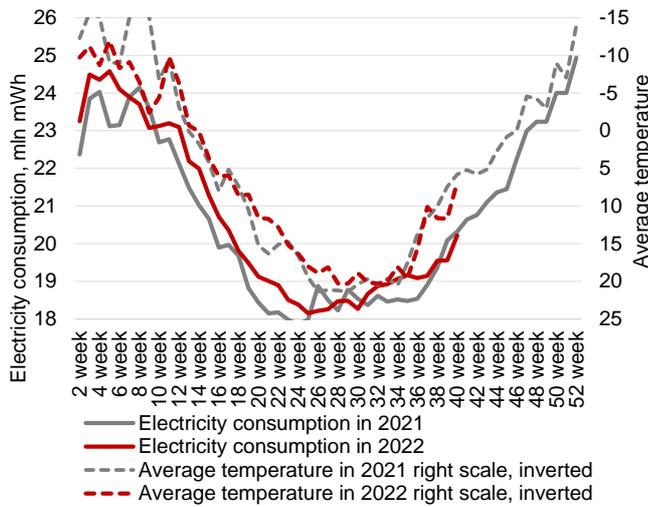
Sources: Rosstat, R&F Department estimates.

Figure 14. Russia's Manufacturing and Services PMI, points



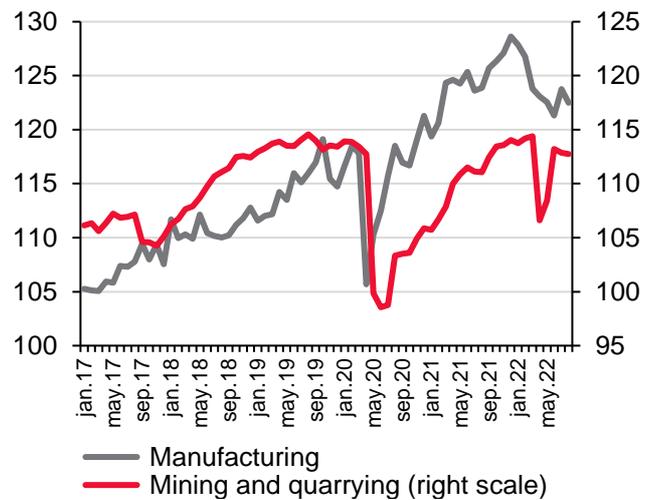
Source: S&P Global.

Figure 15. Electricity consumption and average temperature in 2022 and 2021, mln mW*h (left scale), degrees (right scale)



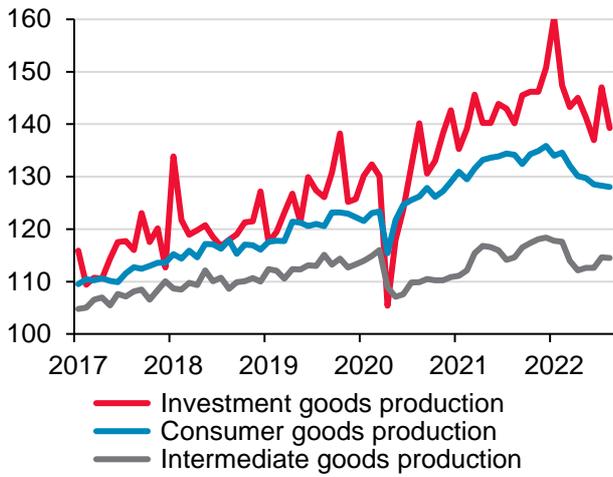
Sources: System operator of Unified Energy System, R&F Department estimates.

Figure 16. Mining and quarrying and manufacturing indices (2014 = 100)



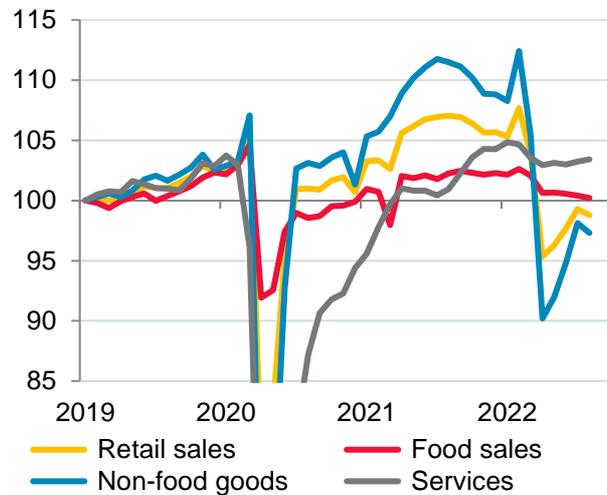
Sources: Rosstat, R&F Department estimates.

Figure 17. Manufacturing production indices by industry group, SA, January, 2016 = 100



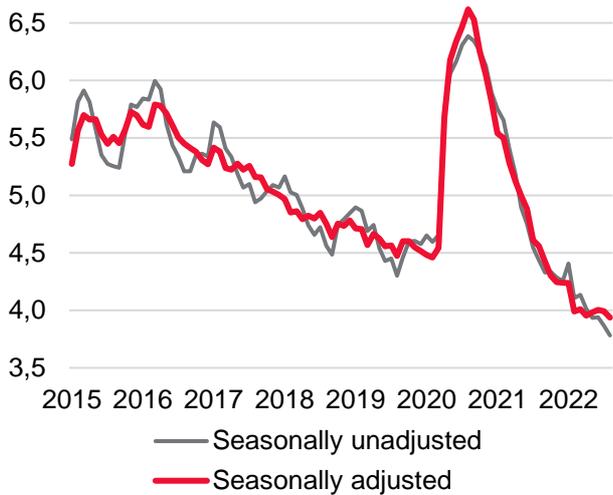
Sources: Rosstat, R&F Department estimates.

Figure 18. Retail and services sector sales (January 2016 = 100%, Seasonally adjusted), %



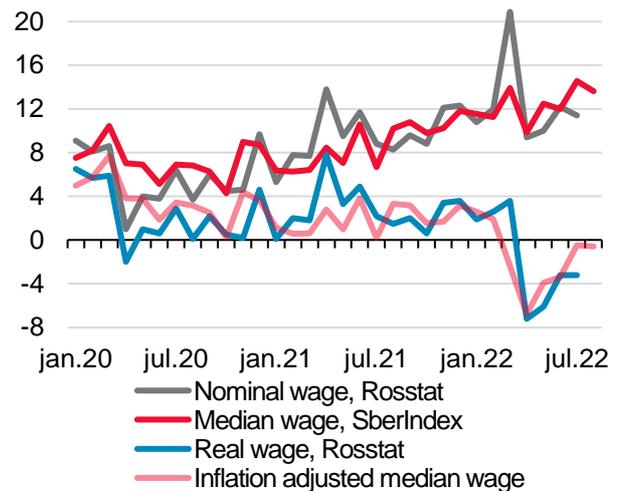
Sources: Rosstat, R&F Department estimates.

Figure 19. Unemployment rate, %



Sources: Rosstat, R&F Department estimates.

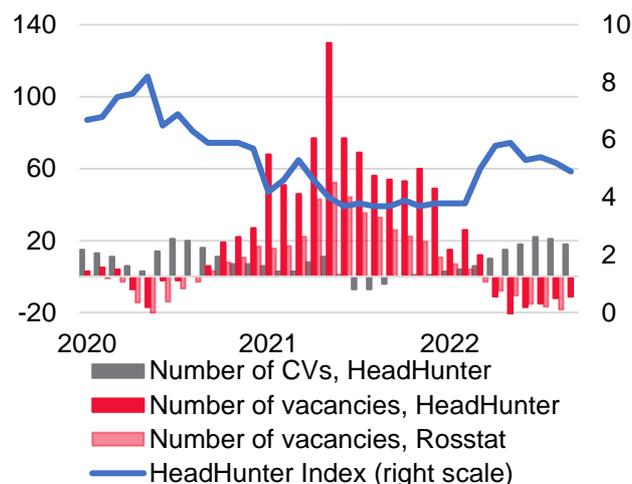
Figure 20. Nominal and real wage growth, % YoY



Sources: Rosstat, SberIndex.

Figure 21. SuperJob index⁷

Source: SuperJob.

Figure 22. CVs, vacancies (% YoY) and HeadHunter index⁸ (points)

Sources: Rosstat, HeadHunter, R&F Department estimates.

2.2. August sees accelerated corporate lending growth

- Buoyant growth in retail lending continued in August, coming in at 0.9% MoM SA after 1.0% MoM SA in July (Figure 23). The retail loan portfolio expansion is driven chiefly by mortgage lending. A total of loans extended added 4.3% YoY in August (Figure 24), while loan debt expansion accelerated to 3.7% MoM SA from 1.5% MoM SA,⁹ based on our estimate. The mortgage lending segment is still supported by subsidised lending programmes for the new housing market. Meanwhile, lending activity soared in the unsubsidised segment amid interest rate declines, thanks to, among other things, programmes implemented jointly by developers and banks (Figure 25).
- Growth continued in the unsecured consumer loan segment, but its pace remains much slower than in 2021 at 0.3% MoM SA in August and July alike, Figure 26). The auto loan portfolio contracted 0.2% MoM SA in August, having dropped at the same pace in July, likely due to the continuing shortages in the car market. The modest performance of other than mortgage lending, usually relied on to finance purchases of durable goods, indicates the continuing constraints of their supply.
- A rise in OFZ yields in the second half of September and toughening of macroprudential requirements for [low down payment](#) mortgage loans may trigger an increase in loan interest rates, slowing retail loan portfolio expansion in Q4. A rise in uncertainty and change in consumer preferences associated with it along with a savings ratio increase in September may slow loan demand growth in the coming months.

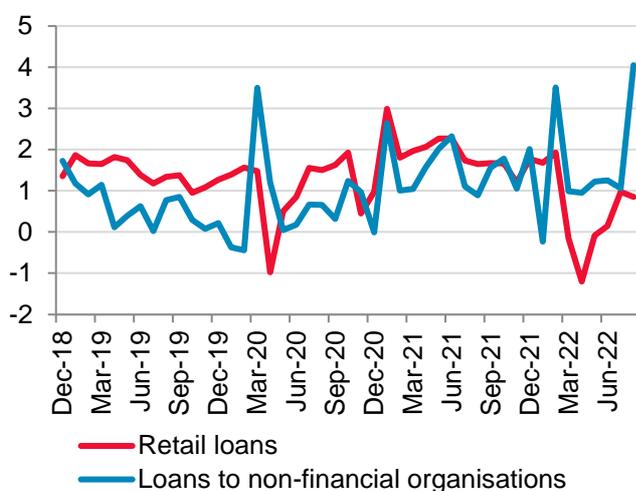
⁷ The SuperJob index reflects employers' recruiting activity relative to the 2017–2019 average.

⁸ Shows a ratio of CVs to vacancies. The higher the ratio, the lower the level of competition for personnel.

⁹ After a portfolio size adjustment for the writing down of securitisation loans.

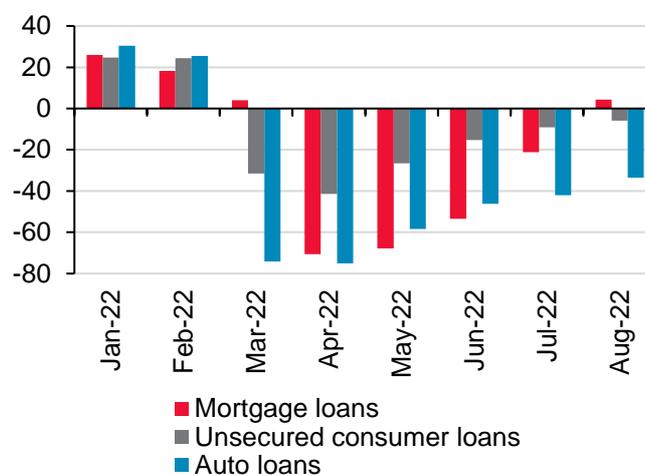
- Growth in ruble loans to non-financial organisations¹⁰ accelerated to 4.1% MoM SA in August from 1.1% MoM SA a month earlier. The surge in ruble loan expansion is to a large extent driven by financing a number of major investment projects, the replacement of foreign exchange loans with ruble ones (the foreign exchange loan portfolio contracted 641 billion rubles, with ruble loans expanding 1.8 trillion rubles), and rebounding of economic activity in some industries, in particular, the manufacturing sector and construction. The rise in uncertainty may also hurt corporate lending owing to the toughening of new loan issuance policies by banks.
- The portfolio of loans to financial organisations also showed growth acceleration – to 4.4% MoM SA in August from 3.6% MoM SA in July. This may indirectly evidence the recovery of other financial market segments, for example, lending to banks' leasing affiliates.
- Expansion in ruble deposits and corporate funds in accounts accelerated to 5.0% MoM SA from 3.8% MoM SA in July, driven partly by dedollarisation. Household deposits added 1.2% MoM SA in August, just a fraction up from 1.3% MoM SA a month earlier. Household deposit dedollarisation continued at a fast pace, with foreign currency deposits shrinking 3.1% MoM SA after a 3.5% MoM SA drop in July.
- Accelerated growth in the more liquid part of ruble money supply is continuing: deposits with maturities of up to 181 days are opened and current accounts replenished at a faster pace than average last year (Figure 27). Coupled with an overall acceleration of monetary aggregate growth to the fastest pace since the adoption of inflation targeting policy, this indicates a rise in proinflationary risks. That said, whereas transactions with the external sector previously played the key role in broad money supply, M2X, growth, the fiscal channel of money creation has started to play an increasingly larger part in the past two months (Figure 28).

Figure 23. Banks' credit growth, % MoM SA



Sources: Bank of Russia, R&F Department estimates.

Figure 24. The dynamics of the new loans issued, % YoY



Sources: Bank of Russia, R&F Department estimates.

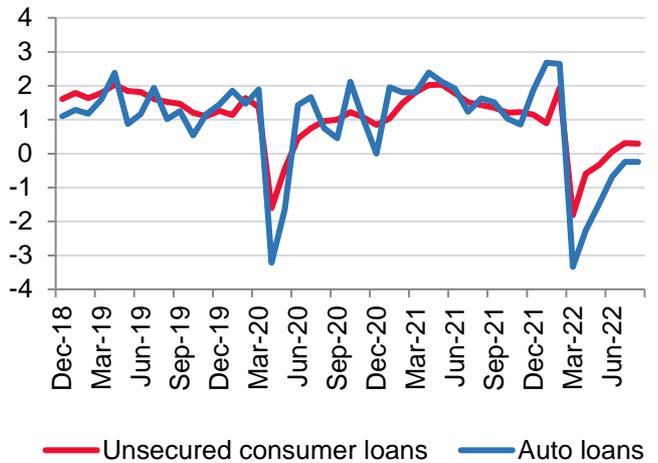
¹⁰ The growth of loans to sole proprietorships accelerated to 1,8 from 1,7% MoM SA

Figure 25. Share of subsidised mortgage loans in overall mortgage lending, %



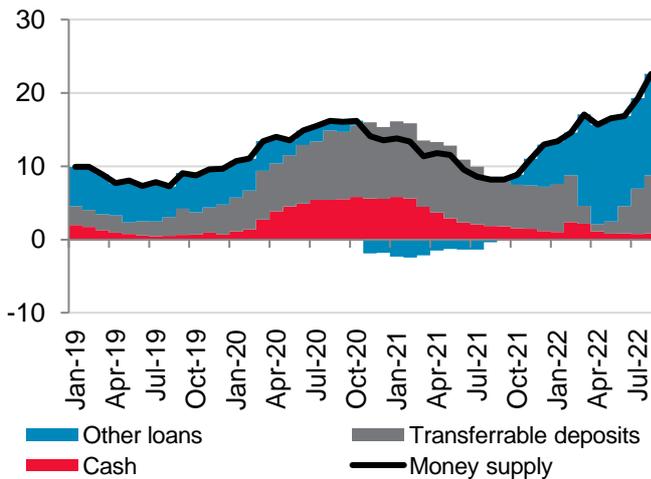
Sources: Bank of Russia, Dom RF, R&F Department estimates.

Figure 26. Growth in unsecured consumer loans and auto loans, % MoM SA



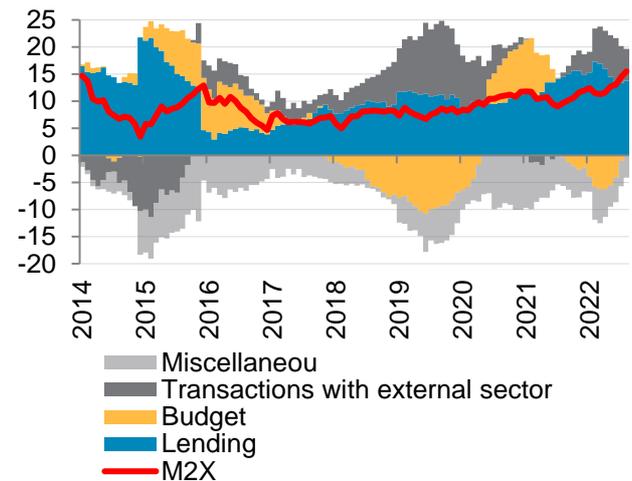
Sources: Bank of Russia, R&F Department estimates.

Figure 27. M2 growth structure, pp



Sources: Bank of Russia, R&F Department estimates.

Figure 28. Structure of broad money supply growth, by source, * %



Sources: Bank of Russia, R&F Department estimates.

In focus. Change in demand structure as proinflationary factor

- After a steep fall in Q2, consumer demand was rebounding in Q3 in the footsteps of household income, with the consumption structure changing in parallel.
- The services segment has shown the most stable performance in 2022. Lagging farthest behind the pre-crisis levels was still the sector of non-food goods, in particular, groups which suffered a mass exit of suppliers and retailers from unfriendly countries and thus saw a shortage of goods from brands to which consumers were used.
- In these conditions, inflationary pressure in the segment of non-food goods may mount even if moderate spending on these goods continues. A shift of demand to other segments, above all, services, will have a concurrent proinflationary effect. Therefore, a change in the demand structure may create additional inflationary pressure even if the income level is stable.

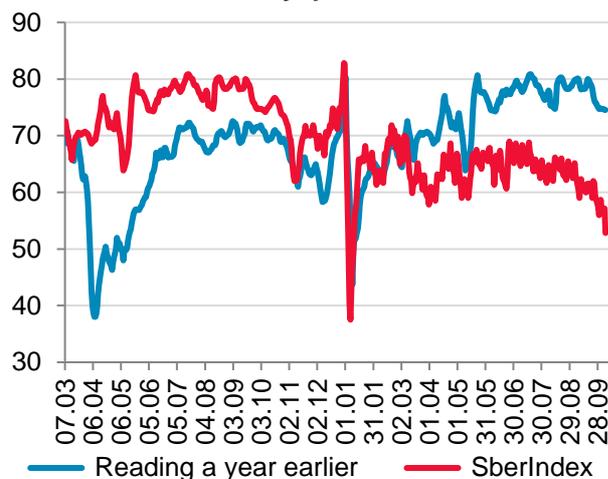
As real disposable income dropped in Q1–Q2 2022, consumer sentiment worsened and uncertainty mounted after the late February developments, households temporarily shifted to the savings behaviour model, not only accelerating savings buildup but also somewhat changing the structure of everyday consumption towards more affordable products. [Indeed, according to August's Nielsen polls](#), low prices were the key criterion in choosing a shop for 73% of consumers, while data from retail chains and online retailers registered a spike in the popularity of discounts and promo-actions above the pre-crisis levels (52% for offline retailers and 80% for online platforms). Demand for retail chains' proprietary brands doubled over one year and people's receptiveness of customer loyalty programmes¹¹ increased. Retail chains' traffic statistics bears out that the sales expansion in discount formats outpaced that in the supermarket segment, driven by both stronger average cheque growth and traffic migration from more expensive formats.¹²

Based on the Sber and Tinkoff indices, the consumer activity level was also sliding in Q3, lagging far behind its previous year's figures (Figure 35, Figure 36). This performance of the indices reflects, above all, a reduction in the number of retail shops visited by individual consumers, the shrinkage of goods and services mix preferred by households, as well as the concentration of spending in some categories. These trends are corroborated by the [shopping center traffic indices](#), which hit four-year lows [as the shops of popular brands, which used to be the major traffic generators, closed down](#).

¹¹ The overwhelming majority of adult Russian population already hold loyalty cards from food and non-food retailers.

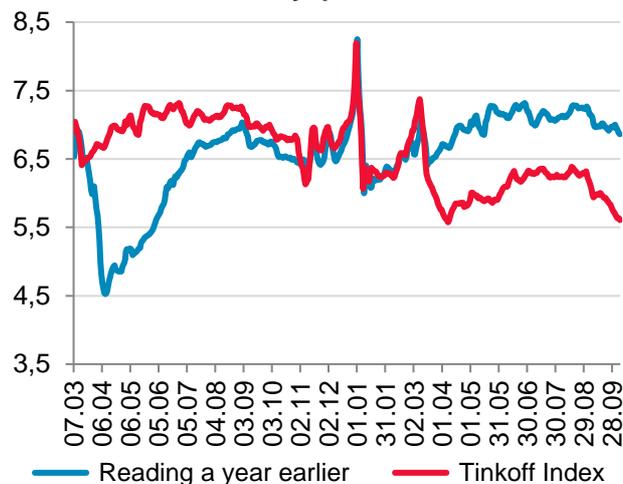
¹² Based on Q2 reporting of Russia's major retail chains, [X5](#) and [Magnit](#), a fall across the board in supermarkets was accompanied by a traffic rise in discounters.

Figure 29. SberIndex reflecting consumer activity, points



Source: SberIndex.

Figure 30. Tinkoff index reflecting consumer activity, points



Source: Tinkoff.

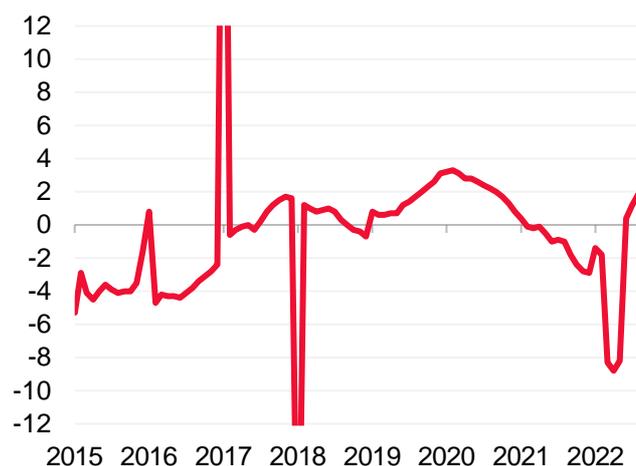
Figure 31. Average monthly wages and retail sales, January 19 = 100



* August wages – an estimate based on median wages data from SberIndex.

Sources: Rosstat, SberIndex, R&F Department estimates.

Figure 32. Real pension benefits, YoY

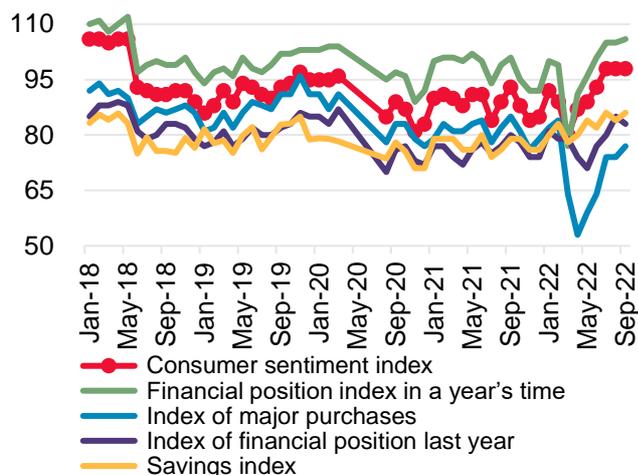


Sources: Rosstat, R&F Department estimates.

After a steep drop in H1 2022, household income started to recover, however. Real wages expanded (Figure 31) amid all-time lows of unemployment, pension benefits were additionally indexed¹³ (Figure 32). Consumer sentiment was improving throughout most of Q3 (Figure 33), retail lending resumed growth. Consumption also began recovering, but not as rapidly as income. That said, significant changes in the household income structure emerged. Paid services recovered at the steadiest pace, coming close to the level of the start of the year. At the same time, the consumption of non-food goods contracted the most, and after a rebound at the end of the spring – the start of the summer, dropped again (Figure 34).

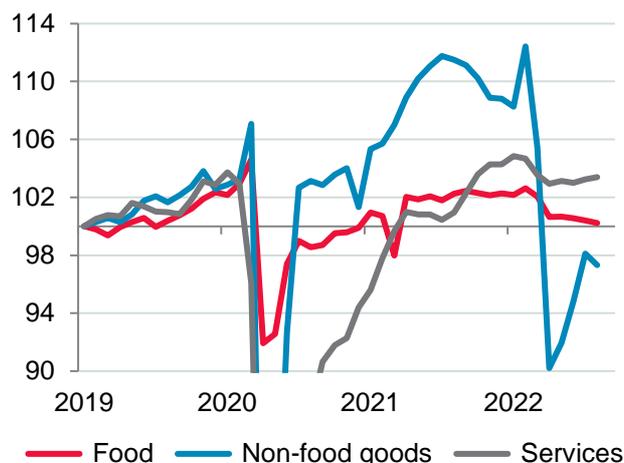
¹³ Labour income and social transfers are the key items of household income.

Figure 33. Indices of consumer and financial confidence, pp



Source: InFOM.

Figure 34. Retail sales and consumer services, January 19 = 100, SA



Sources: Rosstat, R&F Department estimates.

Is the consumption structure shift towards the services sector sustainable and what are its possible implications for inflation?

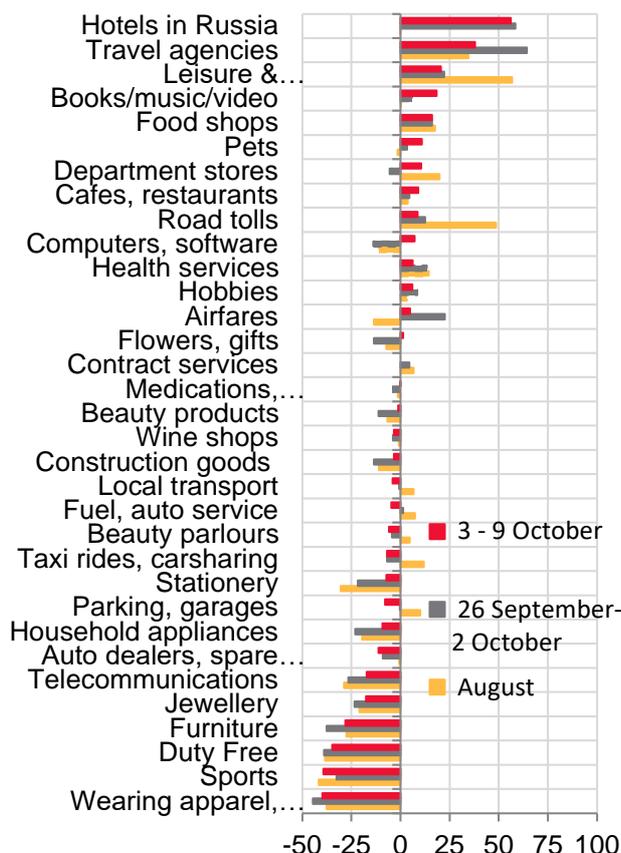
The relatively weak trend in the consumption of goods is driven by supply-side factors, whose impact is the most pronounced in the non-food segment. Supply side constraints are not as significant in food segment, first, because sanctions have not affected the majority of categories, second, because the share of imports in food retail sales was much lower than in the non-food segment.¹⁴ In the services sector, the reduced access to holiday-making abroad and exit of foreign players from Russia's restaurant market were fairly successfully offset by domestic businesses' efforts to win over and retain domestic customers.¹⁵

The non-food sector sees a different situation. Consumption here still suffers a double-digit decline from last year's levels across a wide range of items. The steepest fall in spending is posted in categories, such as wearing apparel, sports, furniture, as well as telecommunication equipment and household appliances. These are the niches with the widest representation of retailers/suppliers from unfriendly countries, which have exited the Russian market or suspended their operations in Russia. A dramatic shrinking of the product mix and supply are seen in the passenger car category. Figure 35 shows that *nominal* spending on no item of goods (except for books/music/video, which may well be included in the services segment rather category) exceeded last year's level.

¹⁴ [According to a Rosstat estimate, 25% versus 40% in Q4 2021.](#)

¹⁵ The prompt launch of restaurants and cafes taken over from public food service operators, such as McDonalds and Starbucks, after property rights were transferred to Russian shareholders and extensive development of alternative holiday-making locations thanks to the optimization of air carriers' routes and active involvement of SMEs in the tourist industry (Kaliningrad, Far East, Altai), helped double-digit growth in the segments of tourism, public food service, airfares, as well as leisure and entertainment (Figure 35).

Figure 35. Growth in nominal spending in August–September by category, % YoY



Source: SberIndex.

The modest spending on goods in Q3 may partially stem from consumers' mass hoarding in Q1–Q2. To assess excess household consumption of various categories of goods in Q1–Q2, we used [Rosstat data](#) on retail sales of goods at actual prices of all categories of business entities. Then, using the relevant price deflators, we computed the real consumption level at Q1 2019 prices. To estimate the Q3 figure, we used nominal growth in spending of relevant categories based on the SberIndex data.¹⁶ We found that excess buying in H1 occurred in a small number of categories, in total accounting for just a fifth of household non-food consumer basket (Figure 36–Figure 39).

In all other categories of goods (cars, household appliances, wearing apparel, furniture (Figure 40– Figure 45), panic buying in Q1 was offset by a consumption decline as early as Q2. Moreover, they were exactly the categories which suffered a mass exit of foreign producers from the Russian market. To attain last year's level of consumption of household appliances, electronic goods, furniture, and cars for nine months, households would have had to ensure

¹⁶ The estimation of real spending growth in the category of passenger cars uses the sales of new and used cars in pieces (AEB and Avtostat).

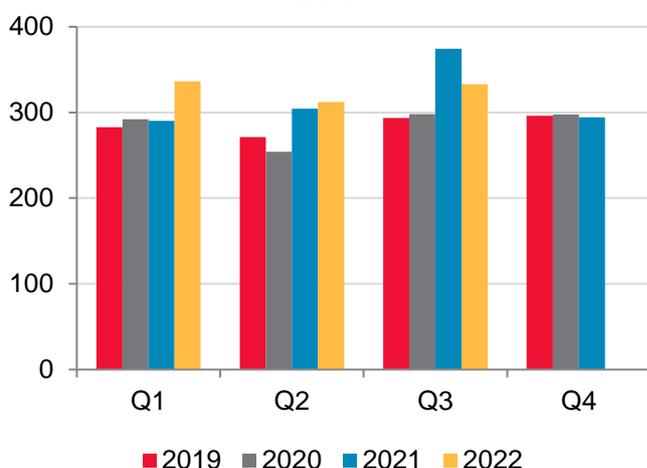
double-digit real spending growth¹⁷ in Q3. Thus, the consumption slump arose from the lack of access to goods rather than from their glut or weak demand.

The above categories of goods which saw a slump in spending account for the main body of consumption of non-food goods. Therefore, a sizable increase in the consumption of non-food goods is not to be expected in the short term, unless there emerges supply expansion via parallel import channels or households' shift to accessible substitutes accelerates. Moreover, supply expansion may fail to ramp up consumption immediately: consumers need time to get used to goods with other quality characteristics. Passenger cars provide a good example: in addition to a sharp shrinkage of supply in terms of quantity, there was also a shift towards more accessible domestic and Chinese brands.

In the current situation of supply-side constraints in the goods market, sustainable income growth will ramp up inflationary pressure in the non-food segment even if spending on these goods were to be moderate. That said, the current restrictions will cause spending to shift to other categories (for example to the services sector) and may spark further price rises in these segments. Therefore, the current changes in the demand structure may be proinflationary even if the income and overall consumption levels remain unchanged.

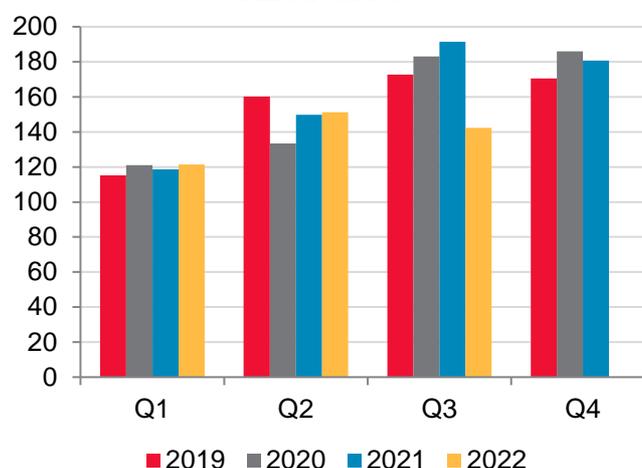
Nevertheless, as the supply of goods expands, the consumption structure may start to come back to normal, with supply growth outpacing demand. This may become a disinflationary factor, helping inflation come back to the target in 2024.

Figure 36. Retail sales of medications, billion rubles



Sources: Rosstat, R&F Department estimates.

Figure 37. Sales of construction materials, billion rubles



Sources: Rosstat, R&F Department estimates.

¹⁷ Annual change in spending on wearing apparel and footwear (Figure 38, Figure 40) is affected by the high base of last year, when a large amount of social payments targeting children and pensioners at the stage of exit from massive restrictions put in place to combat the Covid-19 pandemic went towards buying new clothes.

Figure 38. Footwear retail sales, billion rubles

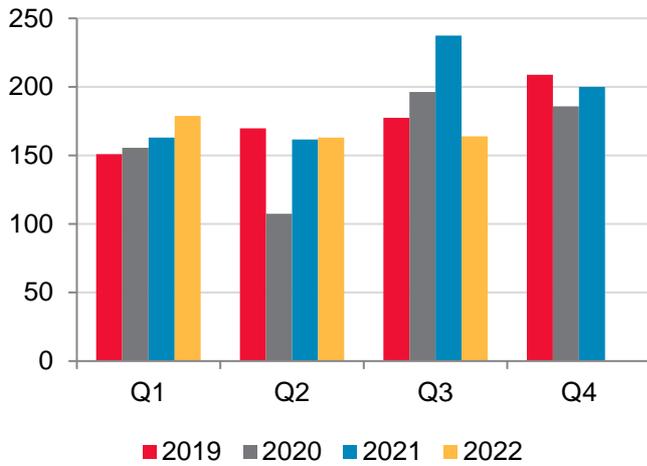
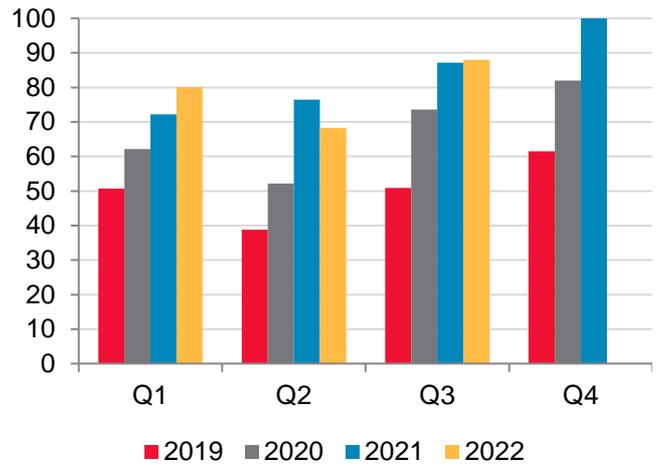


Figure 39. Retail sales of personal computers, billion rubles



Sources: Rosstat, R&F Department estimates.

Sources: Rosstat, R&F Department estimates.

Figure 40. Retail sales of wearing apparel, billion rubles

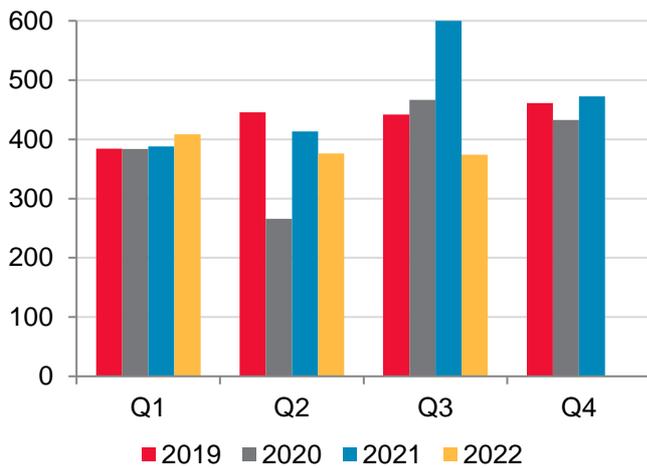
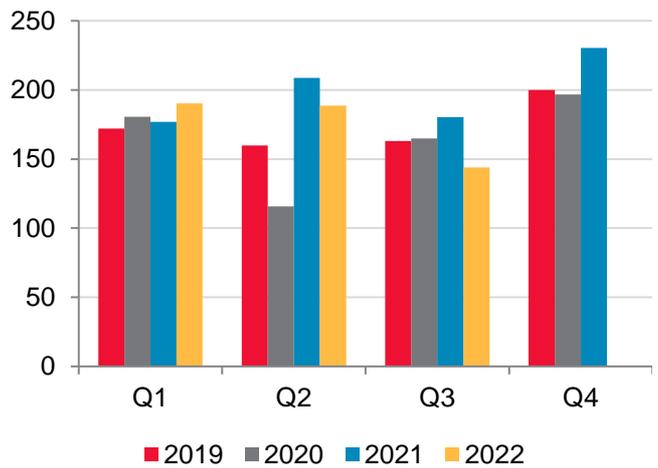


Figure 41. Retail sales of cosmetic products, billion rubles



Sources: Rosstat, R&F Department estimates.

Sources: Rosstat, R&F Department estimates.

Figure 42. Retail sales of household appliances, billion rubles

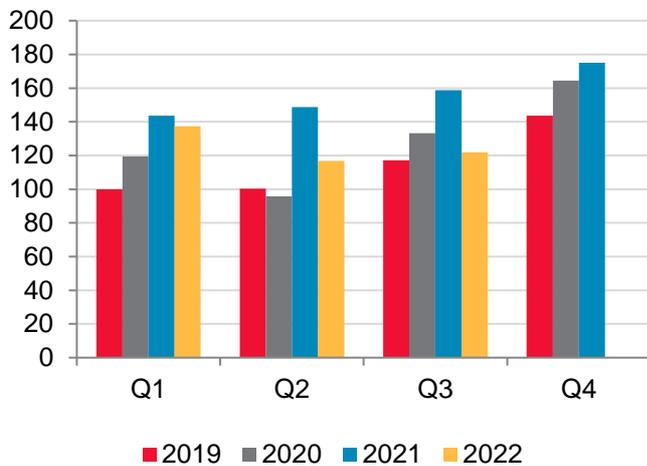
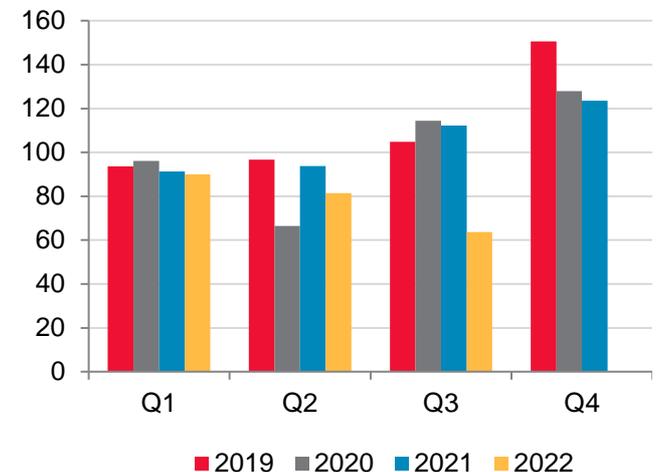


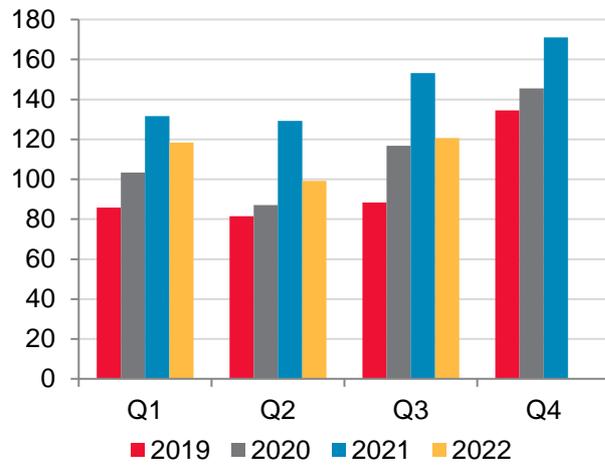
Figure 43. Retail sales of furniture, billion rubles



Sources: Rosstat, R&F Department estimates.

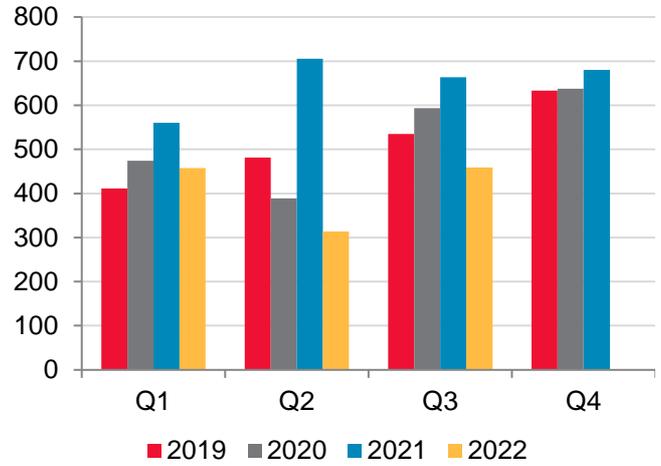
Sources: Rosstat, R&F Department estimates.

Figure 44. Retail sales of mobile phones, billion rubles



Sources: Rosstat, R&F Department estimates.

Figure 45. Retail sales of passenger cars, billion rubles



Sources: Rosstat, R&F Department estimates.

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