



Bank of Russia

A photograph of a rural landscape at sunset or sunrise. A dirt path leads through a green field towards a line of trees. In the background, there are rolling hills under a sky with soft, golden light and scattered clouds.

No. 3

TALKING TRENDS

Economy and markets

Research and Forecasting Department Bulletin

April 2023

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The Research and Forecasting Department prepared this bulletin based on data as of 14.04.2023.

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

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Executive summary

Monthly summary

- Most sectors of the Russian economy were in positive territory in the first quarter of 2023. However, despite a gradual recovery in demand and improved consumer sentiment sustainable inflationary pressures remained moderate. Inflation expectations of households and businesses were still elevated. Inflation risks stemming from fiscal policy, the labour market and external conditions invariably prevail over disinflationary risks.
 - Robust economic growth in February was confirmed by statistical data. Judging by flash data and surveys, the expansion extended into March. Consumer demand was up on the back of higher earned incomes. At the same time, signs emerged at the end of the month of slowing growth in industry groups focused on external and investment demand.
 - Price changes remained muted throughout March. For all the recovery in consumer demand, the rise in commodity prices was held back by previously created inventories and declining food prices in global markets. This, however, came with producers gradually raising prices of consumer goods, suggesting that a rise in inflationary pressures is due in the months ahead.
 - OFZ yields were little changed in March. Increased borrowings coupled with concerns over a persistently high budget deficit in the medium term are still the key factors behind the significant positive spread between long-term and short-term OFZ yields.

In focus: Low labour mobility may decelerate the structural transformation of the economy

- In the periods of adaptation to crises, Russia's labour market has historically shown relative rigidity, low inter-industry and interregional mobility, as well as rapidly growing part-time employment.
- Strengthening competition for employees amid a labour supply downturn stemming from transient challenges and enduring demographic trends, largely accounts for an unemployment fall to all-time lows and accelerated wage growth.
- Labour mobility improvement takes a long time, which may become a factor slowing the pace of the economy's structural transformation. Dealing with these adverse effects requires proactive policy to enhance mobility, both inter-industry and regional.

1. Inflation

Annual inflation slowed rapidly to come in at 3.5% for March. The current pace of monthly and annual consumer price rises also remains moderate. At the same time, factors and risks prompting faster persistent price growth in the future are strengthening. This brings in a monetary policy dilemma of whether to respond to the risks of price pressure mounting preemptively, given the time lags with which monetary policy affects inflation, or to wait for explicit confirmation that proinflationary risks are in a large degree realised.

The consumer goods market has, since last autumn, been driven by predominantly one-off factors containing price growth. Indeed, Russia's strong grain and oil-bearing crop output last year, export-related logistics constraints, as well as declining world prices, continue to restrain price rises in the goods of this group, including the products of the food manufacturing industry. The recent expansion in meat and dairy product output amid export restrictions is also containing rises in the prices of these products. The stocks of imported non-food consumer goods built up in the middle of 2022 on the back of a strong ruble appreciation in the summer and autumn, are holding back the pass-through of the current exchange rate weakening. The goods of brands little known to Russian consumers since they have taken the place of brands which have left Russia, often fall under lower price categories and are sold at low-margin prices to lure consumers to these new brands and boost their producers' market share.

The effect of these factors may continue for some time to come, so far offsetting the growing impact of proinflationary factors. These include fiscal policy encouraging demand coupled with confident growth in lending, including consumer loans, ruble weakening, and continued rebounding of economic and consumer activity, fuelled by income growth and shortages in the labour market.

1.1. Price growth remains moderate amid mounting proinflationary risks

- Consumer price rises slowed to 3.5% MoM SAAR in March, with annual inflation going down to 3.5% due to the exit from the calculation base of its fast pace in March 2022. The estimate of annual inflation declined to 3.15% as of April 10. Price movements remained moderate in the segments of food and non-food goods, with the catch-up price growth continuing in services.
- The key supply-side disinflationary factors are as follows: large stocks of goods purchased in 2022 at a relatively strong exchange rate, the development of the private label market, and massive discounts aimed at enhancing consumers' interest in new brands are containing price rises, despite ruble weakening and rebounding consumer demand. As the stocks are depleted and consumers adapt to the new assortment of goods, the proinflationary factors will increasingly make themselves felt.
- In the period of major structural shifts of supply and demand, statistics may capture these changes with a lag. At the moment, this is especially relevant to the market of durable non-food goods.

Annual inflation slowed to 3.5% in March, due to, above all, the high base in the spring of 2022. This effect continues, with the estimate of annual inflation falling to 3.15% as of April 10.

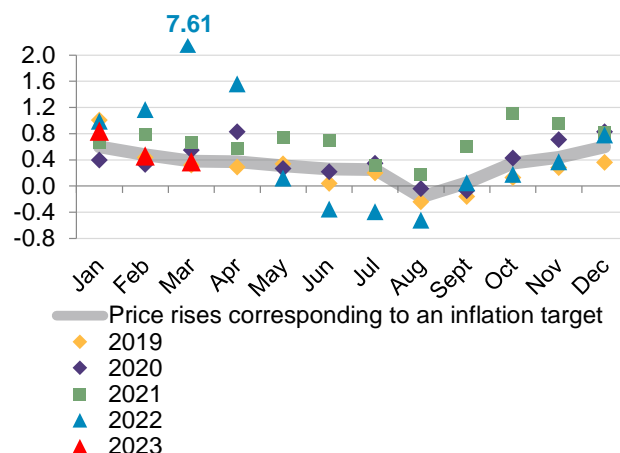
Seasonally adjusted, the pace of consumer price increases remained below the level corresponding to an inflation rate of 4% in annualised terms (Figure 1). The segments of food and non-food goods saw only marginal changes, while the rate of price rises remained elevated in services (Table 1).

Table 1. Inflation and its components

	Mar. 2021	Mar. 2022	Jan. 2023	Feb. 2023	Mar. 2023
% YoY					
All goods and services	5.8	16.7	11.8	11.0	3.5
Core inflation	5.4	18.7	13.7	12.7	3.7
Food	7.6	18.0	10.2	9.3	2.6
Non-food goods	5.9	20.3	12.2	11.2	0.1
Services	3.2	9.9	13.5	13.0	9.7
% MoM SAAR					
All goods and services	7.5	138.8	5.4	3.3	3.5
Core inflation	9.1	178.9	2.1	2.2	2.9
Food	8.3	114.3	6.4	2.4	-0.2
– net of fruit and vegetables	14.3	90.6	0.4	-0.5	1.0
Non-food goods	8.6	258.1	2.7	-0.9	1.3
– net of refined petroleum products and tobacco	7.1	356.6	2.6	-1.3	1.0
Services	5.1	59.3	8.0	10.8	11.4
– Net of housing and communal services	5.8	103.0	9.5	14.3	15.9

Sources: Rosstat, R&F Department estimates.

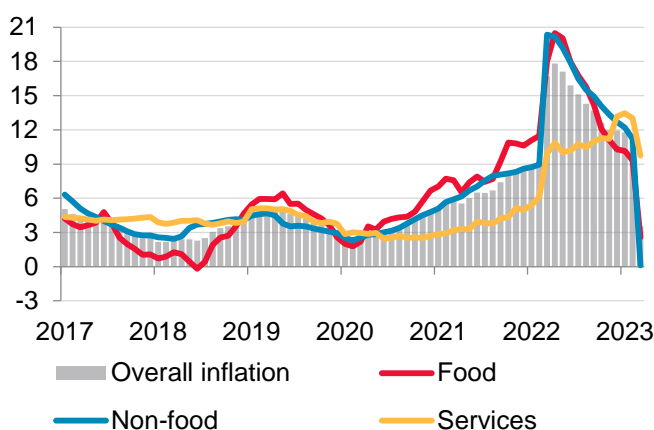
Figure 1. Price rises corresponding to an inflation rate of 4%, % MoM



Sources: Rosstat, R&F Department estimates.

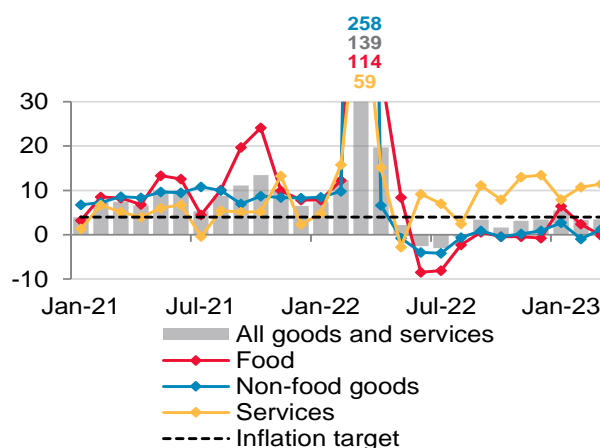
Food prices inched down 0.2% MoM SAAR after their rise in the previous two months. (Figure 5). The above decline was driven by fruit and vegetable price movements: after the rising costs of greenhouse vegetable producers had been passed through to consumer prices, the overall fruit and vegetable prices declined (down 0.6% MoM SA), which is not typical for early spring (Figure 4). Based on real-time weekly data, fruit and vegetable prices came back to seasonal growth in April.

Figure 2. Inflation and its components, % YoY



Sources: Rosstat.

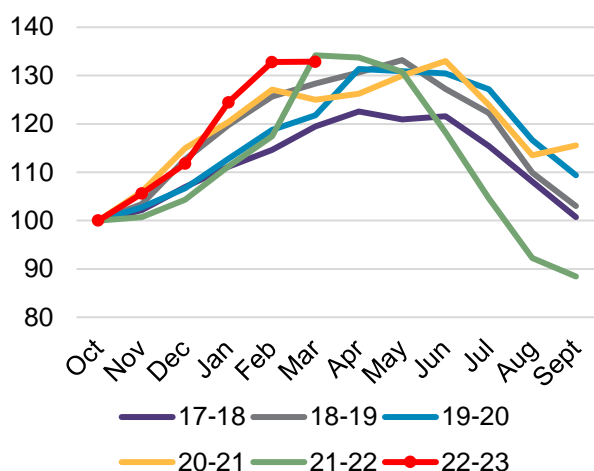
Figure 3. Seasonally adjusted price growth, % MoM SAAR



Sources: Rosstat, R&F Department estimates.

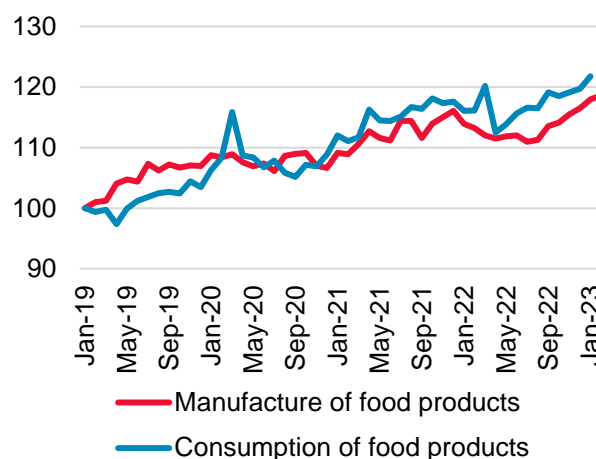
Prices of other food categories were on average little changed – their growth continues to be contained by expanding supply and declining costs (Figure 5). But the impact of these factors may come to an end in the coming months. The producer price movements indicate that proinflationary pressure has been mounting since the start of the year (Figure 11).

Figure 4. Fruit and vegetable price movements relative to October, by year, % NSA



Sources: Rosstat, R&F Department estimates.

Figure 5. Indices of food production and consumption, Jan. 2019 = 100% SA



Sources: Rosstat, R&F Department estimates.

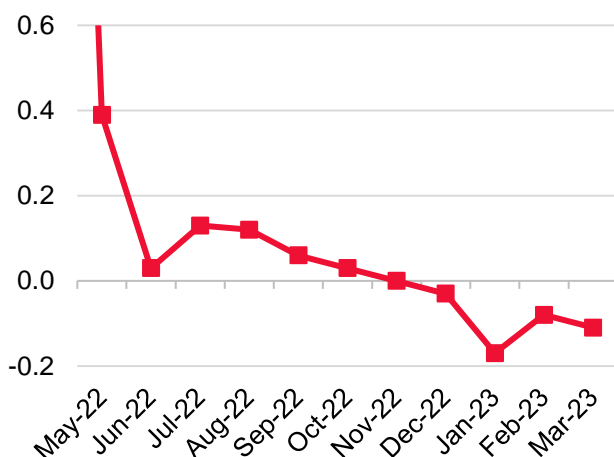
Prices were all but unchanged in the non-food segment, up 1.3% MoM SAAR. The key restraining effect still arises from price movements in durable goods, staying on a downward path, despite ruble weakening and gradual rebounding of consumer demand. This may be due to concurrent effects of a number of factors.

Prices continue to slide in the electronic goods segment even as retailers report strong sales growth. This may arise from a notable change in consumer preferences towards more budget options and the specifics of price registration. The price registration process may be hampered by looking for analogues in order to replace consumer basket items which have become non-representative.

Price movements in non-food goods are restrained by a goods glut. Indeed, the [oversupply](#) of household appliances arises from a situation where large quantities of goods ordered as long ago as the first half of 2022, when the ruble strengthened considerably, are only now being delivered to Russia due to logistics difficulties. To sell these goods, retailers [are offering large discounts](#). This means that the pass-through of ruble depreciation to prices may materialise with a longer lag than usual.

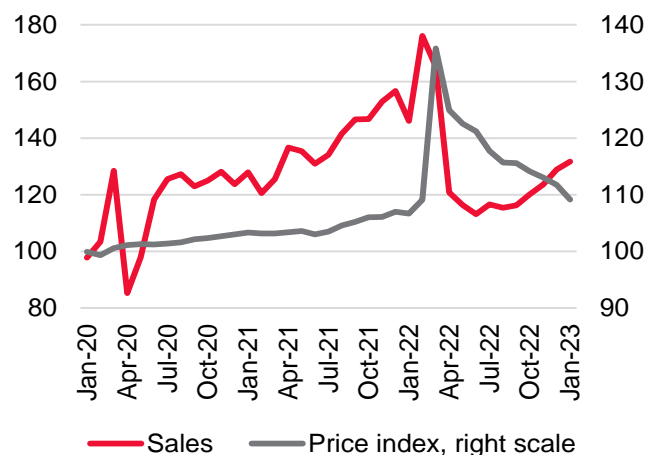
Services prices climbed 11.4% MoM SAAR after 10.8% MoM SAAR in February. Net of the most volatile categories (tourism and air transport) the pace of price rises was unchanged from February at 4.6% MoM SAAR. The fast pace of price rises continues in the unregulated services segment.

Figure 6. Rises in the prices of new passenger cars of foreign brands, % MoM SA



Sources: Rosstat, R&F Department estimates.

Figure 7. Rise in sales and prices of electronic goods, SA, Dec. 19 = 100%



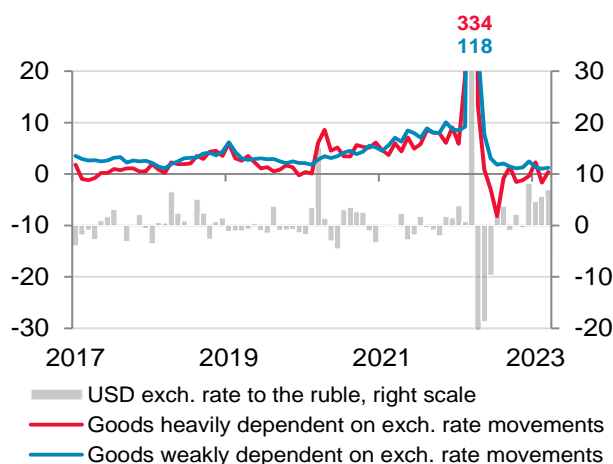
Note. Weighted price index for electrical goods (computers, smartphones, televisions, refrigerators, washing machines).

Sources: Rosstat, R&F Department estimates.

The key indicators of stable price movements suggest that disinflationary factors gained strength in February and March. The distribution median dropped by half compared with January (Figure 9). The mean of modified core inflation indicators also declined, returning to the level of Q3 2022.

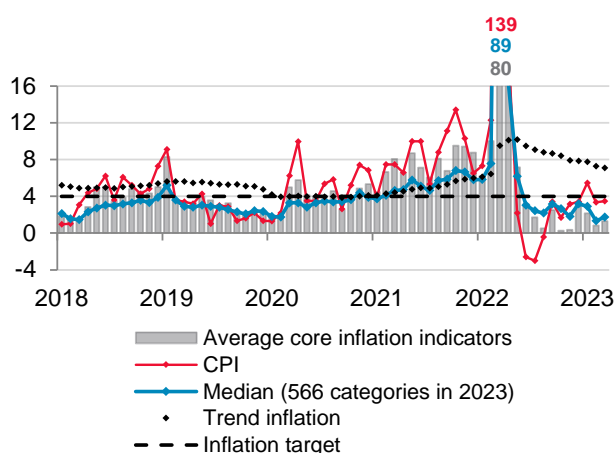
Nevertheless, proinflationary risks are on the rise. As costs climbed and the ruble weakened, January and February saw producer prices go up in manufacturing at large, with increases in producer prices of food and beverages accelerating (Figure 11). According to the Bank of Russia's [March survey](#), price expectations of enterprises also rose, especially notably in trade businesses.

Figure 8. USD exchange rate to the ruble (%) and median CPI (% MoM SAAR)



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

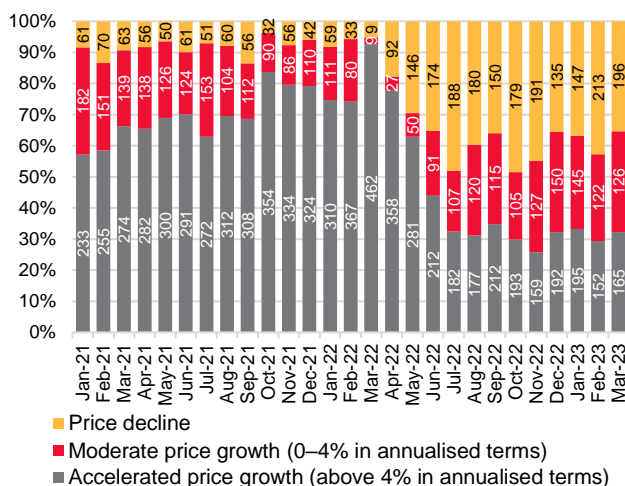
Figure 9. Modified core inflation indicators* (% in annual terms) and trend inflation estimate (% YoY)



* The indicators are computed using the method of excluding the most volatile components and the truncation method.

Sources: Rosstat, R&F Department estimates.

Figure 10. Aggregate weight of goods and services* distributed based on seasonally adjusted price growth

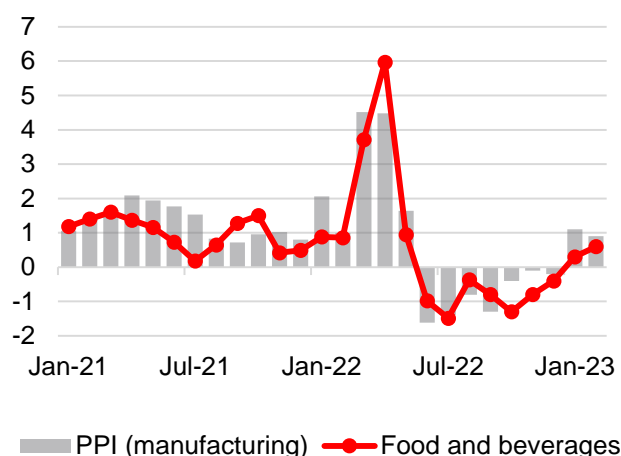


*Net of fruit and vegetables and regulated services.

Note. The figures stand for the number of positions.

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

Figure 11. PPI of manufacturing industries*, % MoM SA

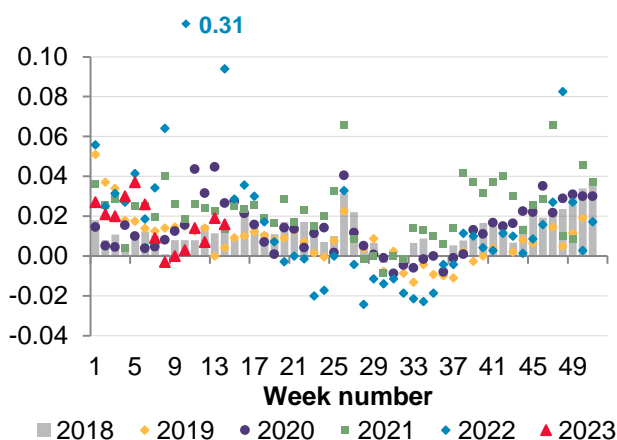


*Excluding metallurgy, production of coke and petroleum products.

Sources: Rosstat, R&F Department estimates.

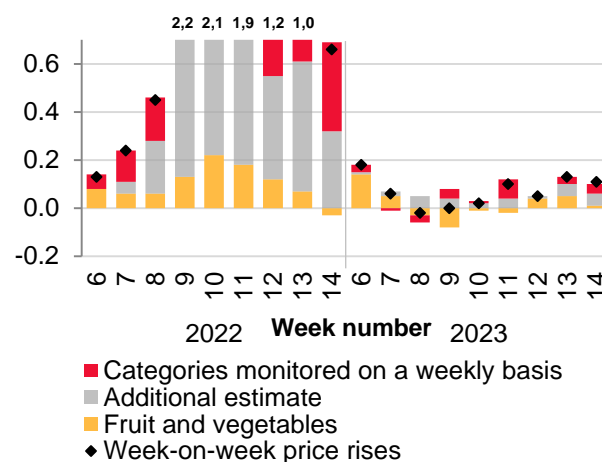
The start of April saw consumer price inflation accelerating. Prices climbed 0.17% over the April 1–10 period (Figure 12). The estimate was to a large degree influenced by volatile components, such as rises in the prices of fruit and vegetables and airline tickets (Figure 13). The pace of price growth in some relatively stable categories, however, also accelerated, going up above 4% in annualised terms (non-food FCMG, cars of foreign brands). Prices of personal services also continue to rise at an elevated pace (up 8.4%–14.3% in annualised terms over the past two weeks).

Figure 12. Average daily price growth, %



Sources: Rosstat, R&F Department estimates.

Figure 13. Decomposition of week-on-week price rises, pp

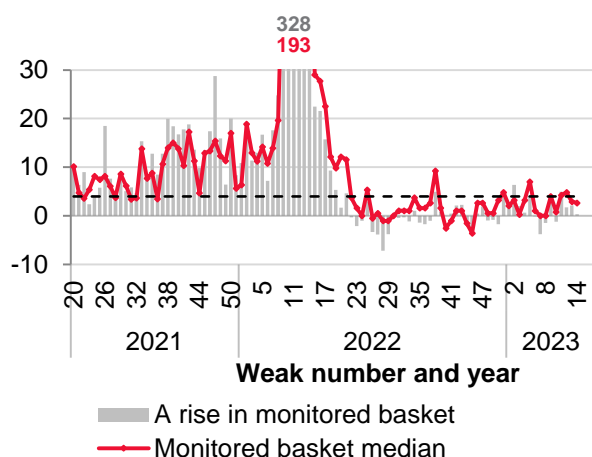


Sources: Rosstat, R&F Department estimates.

Inflationary pressure increased overall, the mean level of distribution median had come close to 4% in annualised terms since March (Figure 14). Real-time data indicate continued

recovery of consumer demand, with real household expenditure having grown since the end of March ([SberIndex](#)).

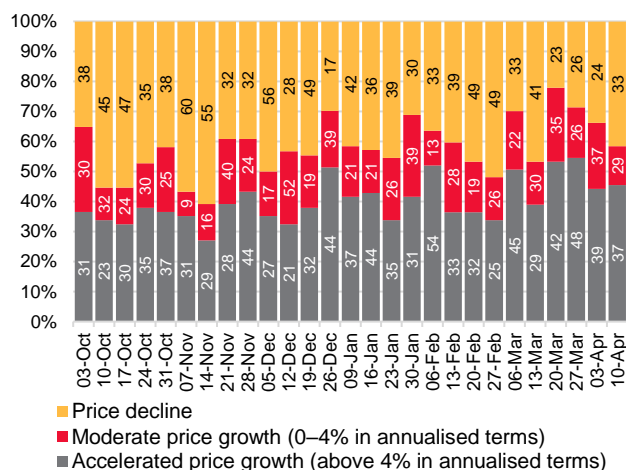
Figure 14. Pace of price growth and median distribution of weekly price rises, % in annualised terms



Note. Calculation 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.

Figure 15. Distribution of price indices for categories of goods and services monitored on a weekly basis*



* Columns stand for the share of items (net of fruit and vegetables and regulated services, a total of 85 categories). The numbers denote their weight in the weekly CPI estimate (net of fruit and vegetables, regulated services and the weight of the calculated addition to the estimate).

Sources: Rosstat, R&F Department estimates.

The balance of medium-terms risks is increasingly shifting towards proinflationary factors. The key supply-side risks are a rise in the costs of producers and suppliers of durable goods, driven by the lengthening of logistics chains and ruble weakening (a planned 10–15% price rise in 2023 was, in particular, reported by [car](#) and [household appliance](#) importers). The demand-side risks arise from the signs of consumer sentiment improvement helped by strong support from the budget. The Bank of Russia is taking account of these risks in conducting monetary policy, its monetary policy decisions seek to ensure inflation stabilisation close to the 4% target in the medium term.

2. Economic activity

It appears from leading indicators and survey data that economic growth continued in February–March, still driven by demand from the government sector and households. That said, the austere consumption strategy of many, primarily low-income, households implies the shift of demand towards budget brands. Being able to buy goods, including private-label products, at lower prices, households can save on purchases without cutting back on the quantity of goods thus bought. Part of this thrift has turned into savings in the form of ruble cash, demand for which has grown significantly in 2023.

The continued growth in nominal and real income and wages amid personnel shortages and a positive financial result posted in many sectors, helps private consumption to further pick up. This may eventually help the savings mode to be renounced if the consumer sentiment improvement seen in recent months continues.

The announced 0.5 million bbl/d oil extraction cut put in place until the end of the year will reduce the overall output growth in March–April but will fail to reverse the uptrend. More notable risks to economic growth arise from continued profitability contraction in a variety of industries amid rising costs and declining export prices. With access to advanced technologies becoming more difficult and taking into account time required for their full or partial substitution with domestic production, labour productivity growth may be hampered. This will hold back growth of the economy, reducing its potential output trend.

2.1. Sustainable business activity expansion in Q1

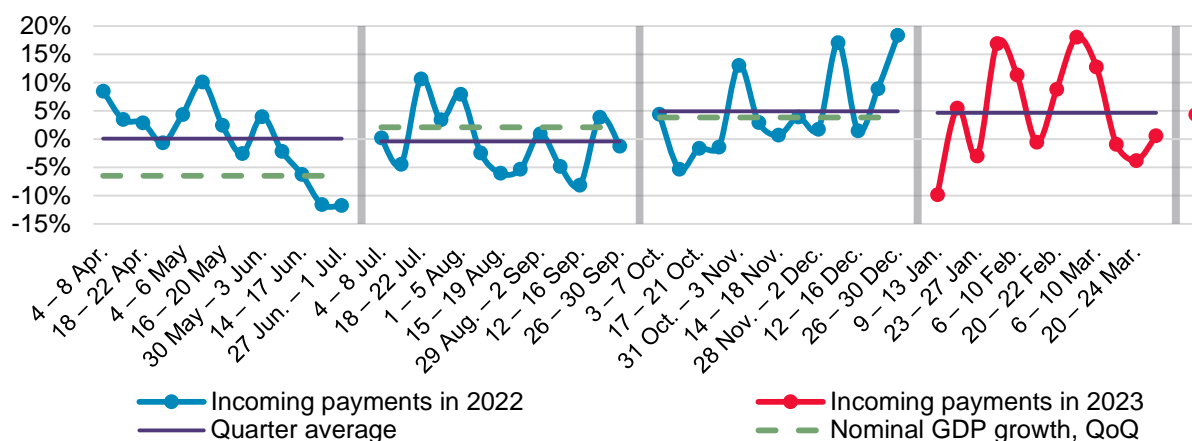
- Judging by real-time statistics, confident business activity growth continued throughout the first quarter. GDP growth at the start of 2023 may be comparable with that in Q2 2023¹ (Figure 16). The key input to activity expansion came from domestic demand, with external demand remaining limited.
- Sustainable economic activity expansion in February is indicated by output in core economic activities, which is a veritable leading indicator for GDP (Figure 17). The key positive contribution was, together with industry (Figure 19), provided by the construction sector and retail trade.
- The output of investment goods industries continued to expand (Figure 20), providing the key input to the recovery of the manufacturing sector. This stemmed from buoyant import substitution after foreign suppliers' exit from the market, as well as a rise in government demand. The flow of incoming payments from industries meeting investment demand in the Bank of Russia Payment System suggests a possible cooling in this segment in March after solid growth last year and in the first months of 2023. Limited access to foreign equipment from unfriendly countries (due to, among other things, their efforts to block alternative channels of supplies via friendly countries) may, in the current situation, curtail companies' investment plans in some industries which are facing difficulties in switching to equipment from friendly countries or domestic manufacturers' products.
- That said, there were signs in February that demand from related industries and end-users was rebounding. For example, the output of intermediate goods industries was buttressed by the manufacture of metal products, demand for which increased as housing and infrastructure construction was stepped up.
- Output remained stable in the group of consumer goods industries. Meanwhile, a gradual consumer demand expansion (Figure 25, Figure 26) amid labour income growth (Figure

¹ Rosstat on 7 April released updated quarterly estimates of 2022 GDP growth, which, according to R&F Department estimates, accelerated to 2.5% QoQ SA in Q4 from 1.3% QoQ SA a quarter earlier.

21) and an unemployment rate decline (Figure 22) may as soon as the next few quarters trigger growth in the segment. Concurrently, imports will continue to recover, driven by an increase in the supply of consumer goods from friendly countries. That said, we have reason to believe that a major change in the consumer goods supply structure on the back of a switch to foreign suppliers from friendly countries or Russian producers which started last year, may have caused the depth of a fall in consumer demand to be overestimated and the speed of its recovery underestimated.

- Survey-based indicators² suggest that economic activity continued to rise in March (Figure 18). Companies' production plans are expanding, prompting further employment growth in many industries. This is taking place in anticipation of further growth in demand thanks to new customers, given the departure of foreign suppliers and the need for import substitution. The voluntary oil extraction cut in March and its extension until the end of the year will have a restraining effect on activity in mining and quarrying and related industries in the months to come.
- Continued consumer sentiment improvement and the return to the pre-crisis highs of perceptions whether it is a good time for major purchases also heighten the probability of an additional upturn in demand, driven by a savings ratio decline from last year's elevated levels. (Figure 23).

Figure 16. Incoming payments growth* relative to the previous quarter average weighted by industries' shares in gross value added, seasonally adjusted, %



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

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

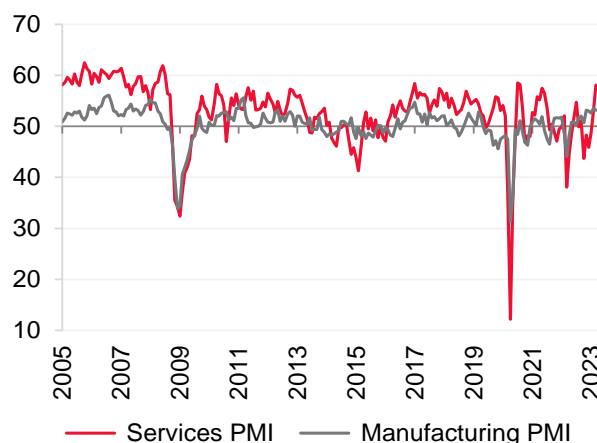
² PMI indices, and the industry forecasts and industrial optimism indices from the Institute for Economic Policy.

Figure 17. Output in core economic activities, % MoM SA



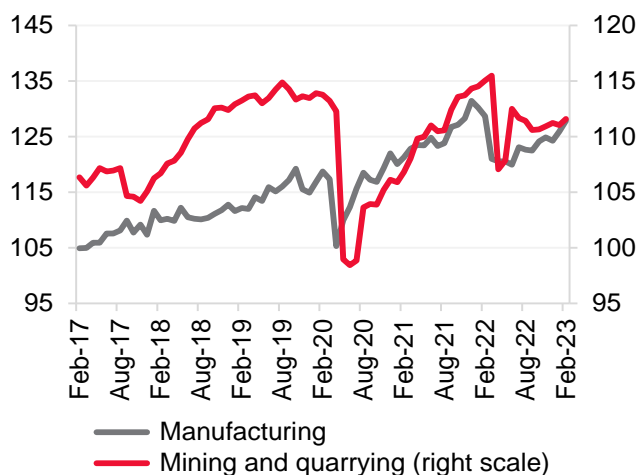
Sources: Rosstat, R&F Department estimates.

Figure 18. Russia's Manufacturing and Services PMI, points



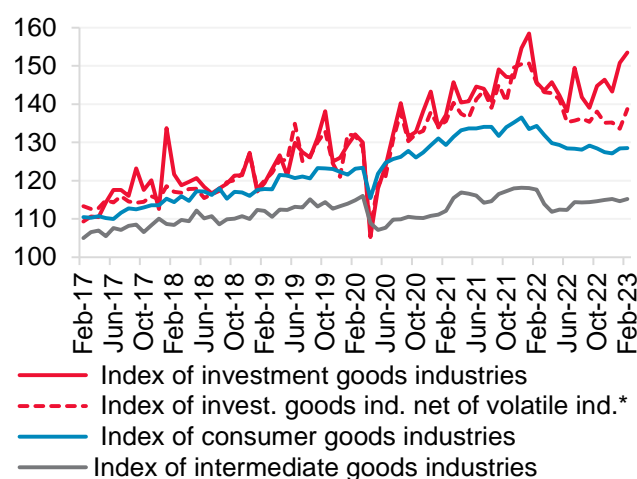
Source: S&P Global.

Figure 19. Mining and quarrying and manufacturing indices (2014 = 100)



Sources: Rosstat, R&F Department estimates.

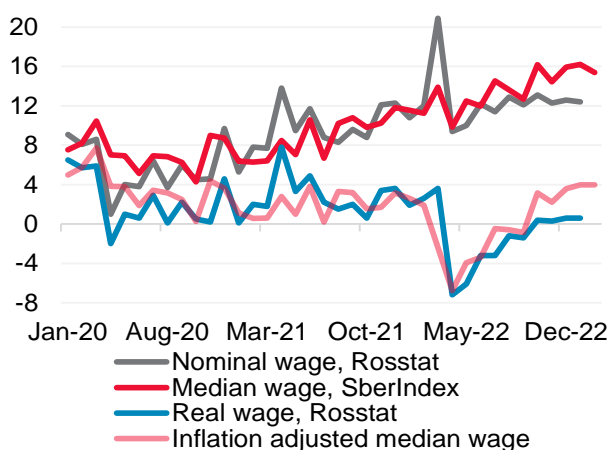
Figure 20. Output in groups of manufacturing industries, SA, 01.2016=100%



* Volatile industries mean the manufacture of fabricated metal products, except for machinery and equipment, and other transport equipment.

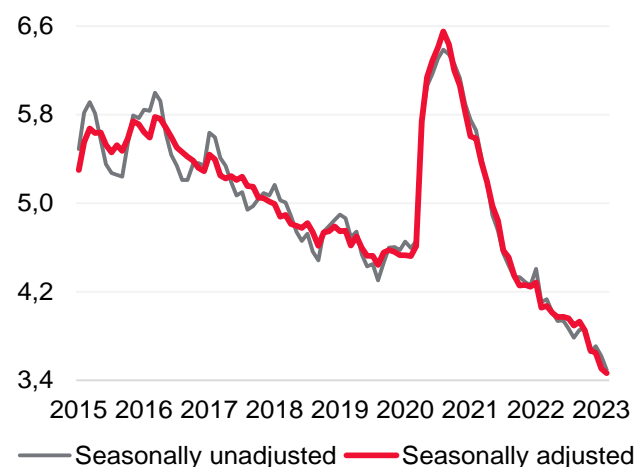
Sources: Rosstat, R&F Department estimates.

Figure 21. Wages, % YoY

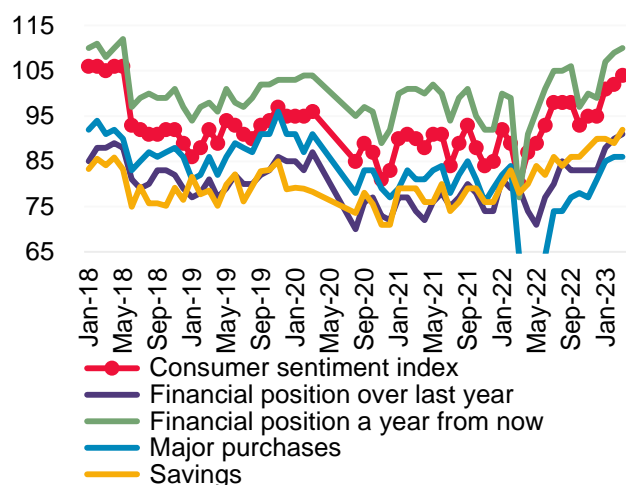


Sources: Rosstat, SberIndex, R&F Department estimates.

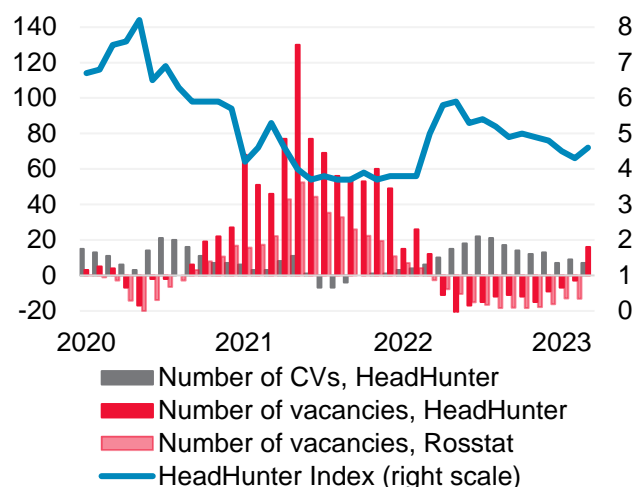
Figure 22. Unemployment rate, %



Sources: Rosstat, R&A Department estimates.

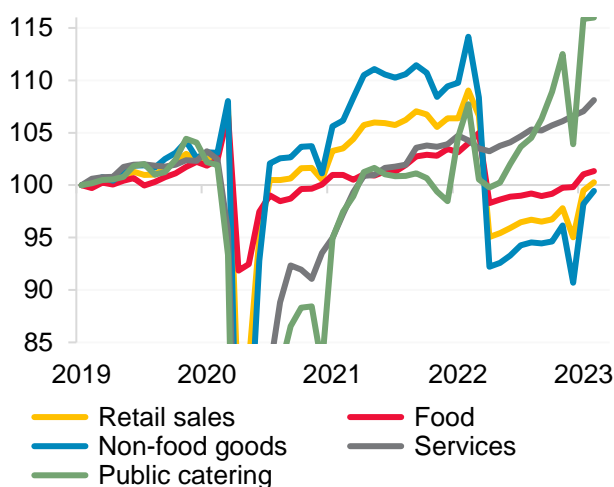
Figure 23. Consumer and financial sentiment indices, points

Source: inFOM.

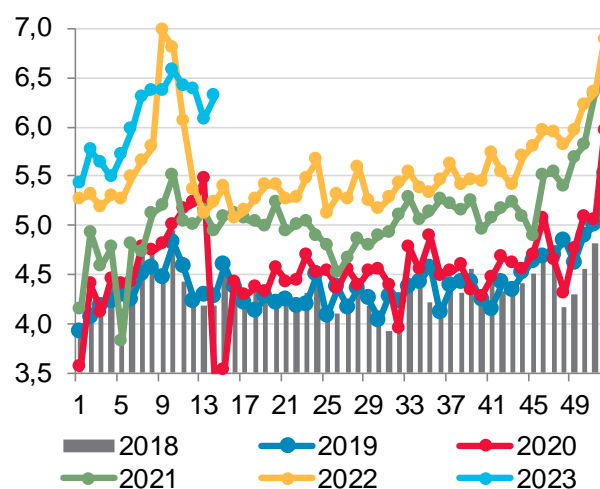
Figure 24. CVs, vacancies (% YoY) and HeadHunter index* (points)

* Reflects the ratio of CVs to vacancies. The higher the ratio, the lower is competition for personnel.

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

Figure 25. Retail sales, sales in commercial and public food services, 1.2019=100%, SA

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

Figure 26. Nominal weekly spending on FMCG, thousand rubles

Source: Romir.

2.2. Lending growth accelerates further

- Real-time estimates indicate that broad money supply expansion slowed to 14.8% YoY in March from 15.2% YoY³ a month earlier (Figure 32), with a rise in money supply M2 decelerating to 23.1% YoY from 25.9% YoY. The key input to money creation in the economy still comes from lending, with the impact of fiscal stimulus rapidly gaining strength.

³ Exclusive of foreign exchange revaluation.

- Retail lending growth accelerated to 1.2% MoM in February from 0.8% MoM SA⁴ (Figure 27), driven by, above all, the mortgage lending segment, up 2.2% MoM SA from 1.4% MoM SA in January, helped primarily by broadening of access to the Family Mortgage Loan programme (Figure 28). Aside from that, the continuing additional subsidisation by developers (at an interest of 3%+) may have helped maintain the high level of loan provision under the Subsidised Mortgage Lending programme, despite a hike in the interest rate offered by the programme from 7% to 8%. Loan provision remained subdued in the secondary housing market as interest rates were raised somewhat to exceed the 2022 level (Figure 29). We expect mortgage loan portfolio growth to remain moderate for the year relative to previous years' levels, given the Bank of Russia's macroprudential measures⁵ and regulatory disincentives from risky mortgage lending programmes offering extremely low interest rates.⁶
- Growth in the unsecured consumer loan portfolio accelerated to 0.9% MoM SA in February from 0.7% MoM SA in January but remained below the 2021 average (Figure 30). Portfolio growth may be contained by banks' conservative policies in the wake of the imposition of macroprudential limits as of 1 January. We are likely to see the continuation of moderate growth in unsecured consumer lending going forward. Movements in search queries indicate that appetite for loans remains somewhat below the previous years' levels (Figure 31).
- The portfolio of ruble loans to non-financial organisations returned to solid growth, up 3.1% MoM SA after a 0.1% MoM SA slide in January (Figure 27). Lending growth provides yet more evidence of business activity expansion, which is also borne out by other real-time indicators. The economy's adaptation to new conditions will likely buttress buoyant demand for corporate lending in the immediate future.
- Corporate ruble deposit growth slowed in February but remained elevated, up 1.3% MoM SA after 2.3% MoM SA in January, reflecting, among other things, extensive budget spending.⁷
- The budget continues to contribute heavily to money supply growth acceleration, but so far without causing a major crowding out of debt for own funds financing of companies' investment and operating activities, which is indirectly evidenced by strong lending growth.

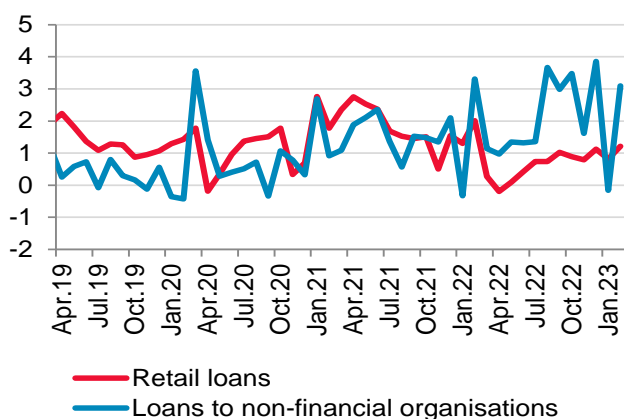
⁴ An R&F Department estimate.

⁵ The Bank of Russia [raises](#), as of 1 May 2023, add-ons to risk weights for high-risk and mortgage loans.

⁶ The Bank of Russia [disincentivises](#) the provision of mortgage loans whose full value is far below the market level. Banks will be required, as of May 30, 2023, to set aside additional loan provisions for such loans extended after 15 March 2023.

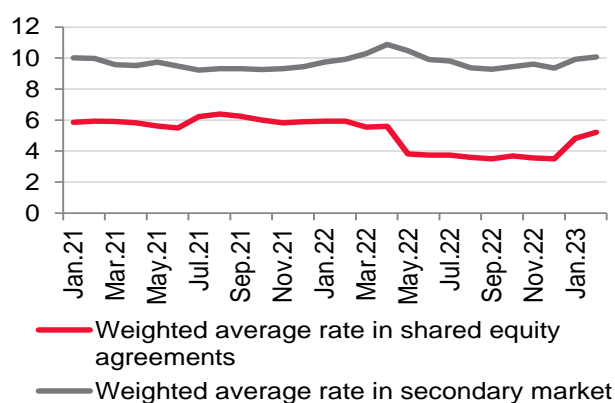
⁷ Federal budget deficit came in at 0.81 trillion rubles (1.76 trillion rubles in January).

Figure 27. Ruble loans portfolio growth, % MoM SA



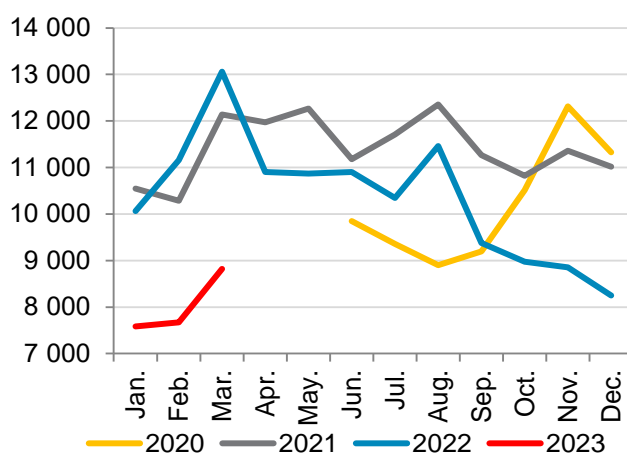
Sources: Bank of Russia, R&F Department estimates.

Figure 29. Weighted average rate by mortgage lending segment, %



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

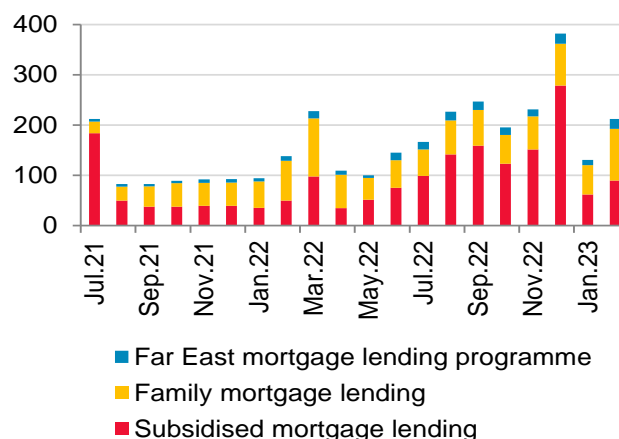
Figure 31. Yandex search queries for word «loan»,* thousand



* The value for March 2023 is based on weekly estimates up to 26.03.2023.

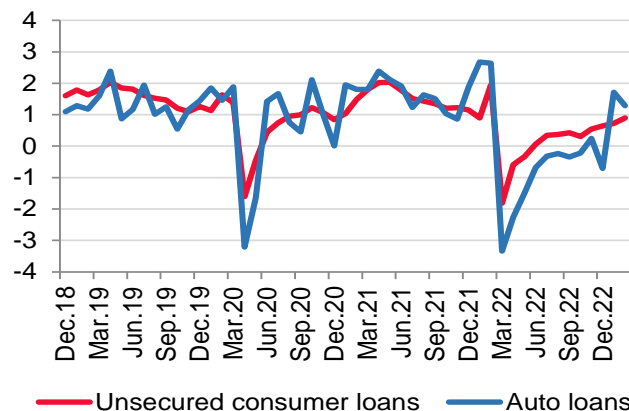
Sources: Yandex Wordstat, R&F Department estimates.

Figure 28. Loan issuance under subsidies mortgage loan programmes, billion rubles



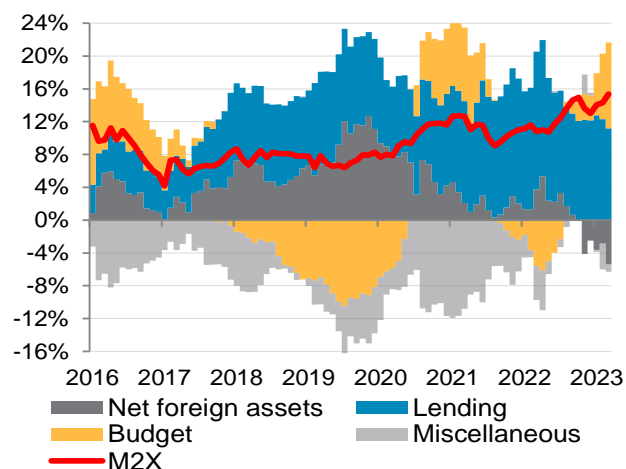
Sources: DOM RF, R&F Department estimates.

Figure 30. Unsecured consumer and auto loan debt, % m/m SA



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

Figure 32. Decomposition of broad money supply expansion,* % YoY



* Adjusted for foreign exchange revaluation.

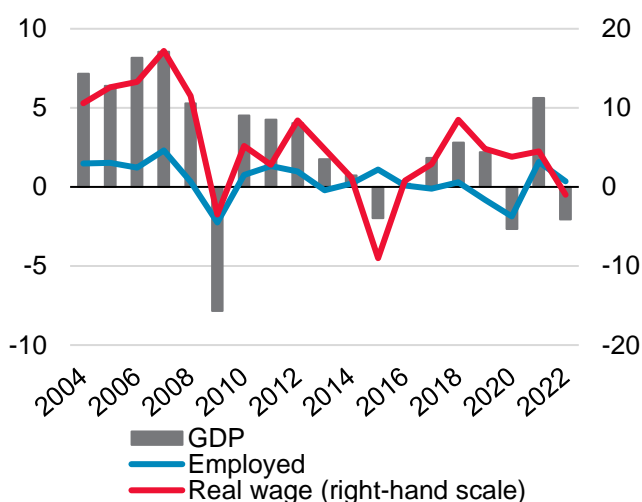
Sources: Bank of Russia, R&F Department estimates.

In focus. Low labour mobility may decelerate the pace of economy's structural transformation

- In the periods of adaptation to crises, Russia's labour market has historically shown relative rigidity, low inter-industry and interregional mobility, as well as rapidly growing part-time employment.
- Strengthening competition for employees amid a labour supply downturn stemming from transient challenges and enduring demographic trends, largely accounts for an unemployment fall to all-time lows and accelerated wage growth.
- Labour mobility improvement takes a long time, which may become a factor slowing the pace of the economy's structural transformation. Dealing with these adverse effects requires proactive policy to enhance mobility, both inter-industry and regional.

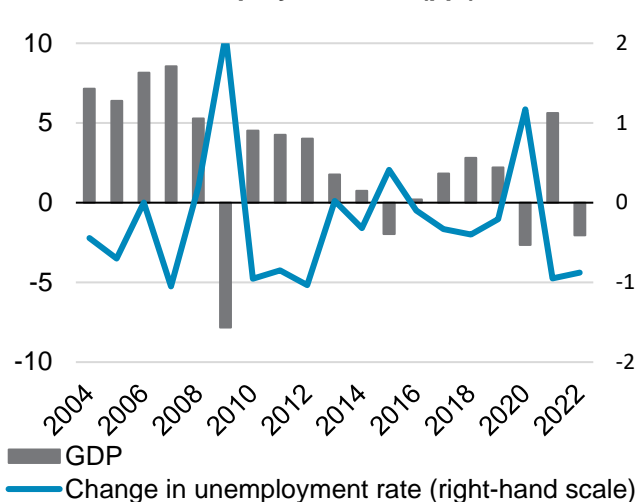
The Russian labour market has, in the past two decades, been known for what was regarded as its trademark feature: the mechanism of adaptation to economic challenges through real wage cuts, with employment remaining fairly stable and unemployment rising relatively modestly (due to, among other things, an increase in part-time employment (Figure 33, Figure 34). This is owed to both institutional specifics of the Russian labour market and low geographical labour mobility. Workers' unwillingness to be involved in interregional and/or inter-industry labour migration, buttressed by institutional specifics hampering employment cuts by employers if demand falls, may bring about imbalances in a variety of industries.

Figure 33. Employment headcount, real wages and real GDP, % YoY



Sources: Rosstat, R&F Department estimates.

Figure 34. GDP (% YoY) and change in unemployment rate (pp.)



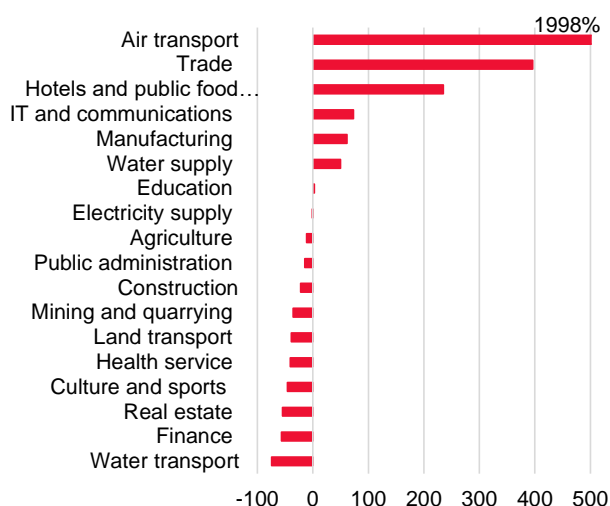
Sources: Rosstat, R&F Department estimates.

In 2022, the labour market situation was slightly different from what we saw in the previous episodes of business activity downturn. A real wage decline was minor, despite a price rise acceleration, whereas the unemployment rate fell to an all-time low. This occurred amid a gradual labour demand recovery in the second half of the year, which, given a market

rigidity increase in the post-pandemic period, triggered an [aggravation of labour shortages](#) and, as a consequence, a wage rise acceleration in some industries (Figure 21).

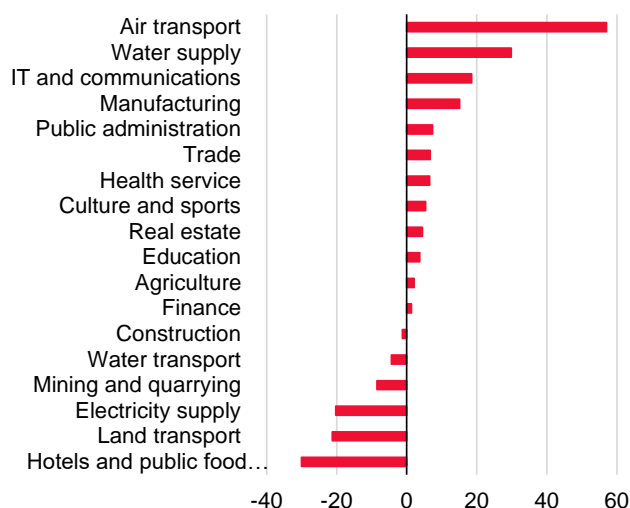
One specific of the ongoing episode of the economy's adjustment to substantial changes in external conditions is that its impact significantly varies across industries. For example, the airline industry, one of the hardest hit, faced a multiple rise in downtime and the number of employees working part time. A similar situation was seen in trade and a number of manufacturing sector industries which rely on imported components and raw materials and have a high share of foreign ownership (Figure 35, Figure 36). At the same time, part-time employment, by contrast, drastically contracted in land transport, mining and quarrying and construction industries which benefitted from restructuring of logistics chains.

Figure 35. Number of employees on downtime by economic activity type in 2022 r., % YoY



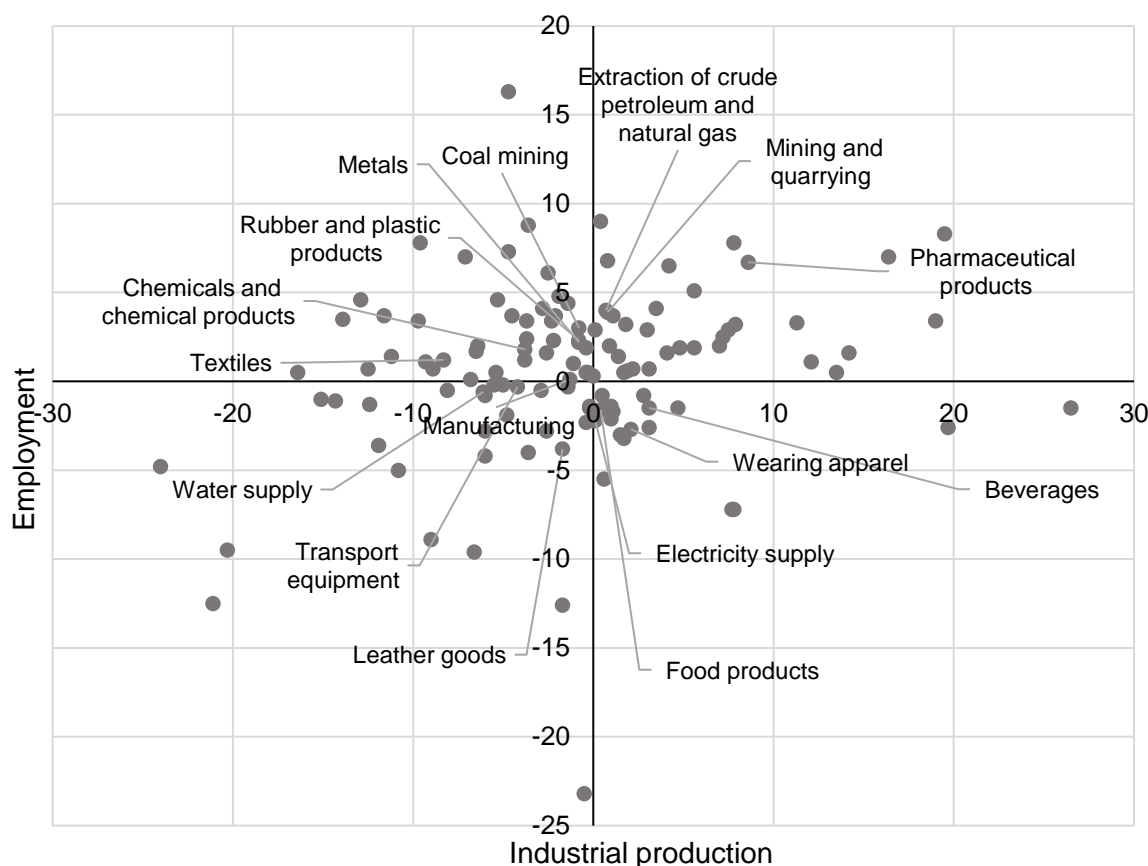
Sources: Rosstat, R&F Department estimates.

Figure 36. Number of personnel employed part time by economic activity type in 2022, YoY

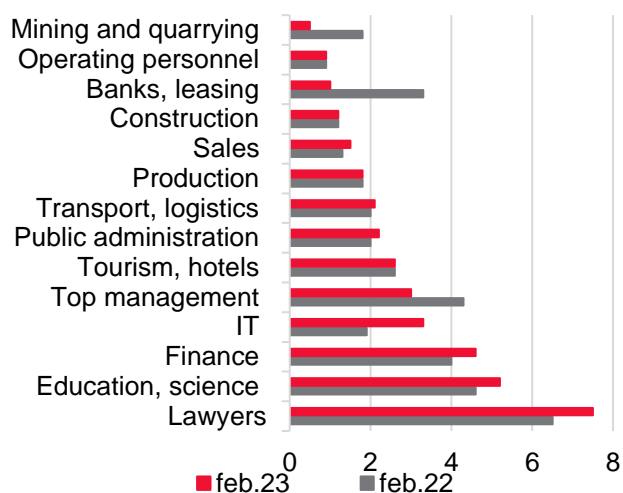


Sources: Rosstat, R&F Department estimates.

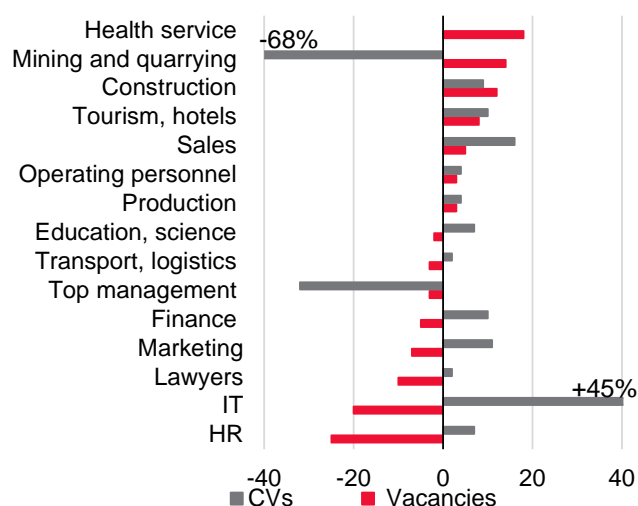
A number of industries maintained or even increased employment headcount in 2022, while their output decreased (Figure 37). A similar picture is seen across regions. Low inter-industry and interregional mobility, sometimes encouraged by social stability in some regions/cities, makes the process of labour outflows from “idle” industries to those increasingly in need of workers extremely slow (Figure 39). These industries are facing intense competition for personnel, exacerbated by a low potential for ramping up people's involvement in the labour market (due to, among other things, the demographic factor, see below). Intense competition for labour resources, owed to labour force's limited mobility spurs wage growth at a faster pace than productivity, which heightens proinflationary risks and may come as a factor slowing the structural transformation of the economy (Figure 42). Wage growth leaders in 2022 were construction, mining and quarrying, and manufacturing industries (Figure 43). Labour income growth in manufacturing was led by the manufacture of fertilisers, agricultural machinery, machine tools, wearing apparel, and metals. This reflects the economy's need for industrial workers' skills, especially in sectors actively engaged in import substitution.

Figure 37. Industrial output and employment headcount in 2022, % YoY

Sources: Rosstat, R&F Department estimates.

Figure 38. HeadHunter index in February 2023⁸

Source: HeadHunter.

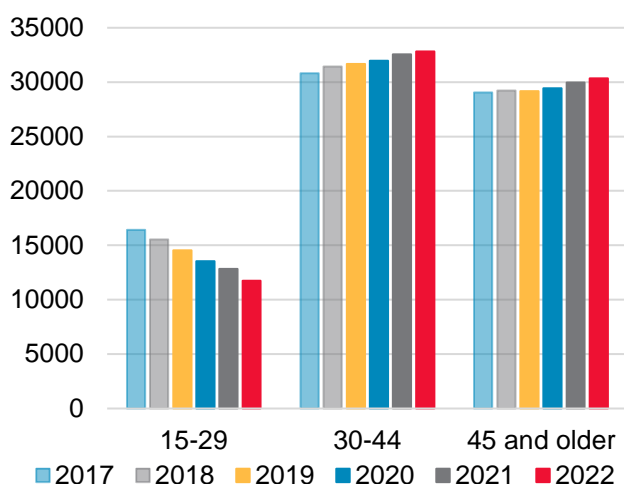
Figure 39. CVs and vacancies by professional field in February 2023, % YoY

Source: HeadHunter.

⁸ The HeadHunter index registers the ratio of active CVs to vacancies. The higher the index, the lower competition for personnel.

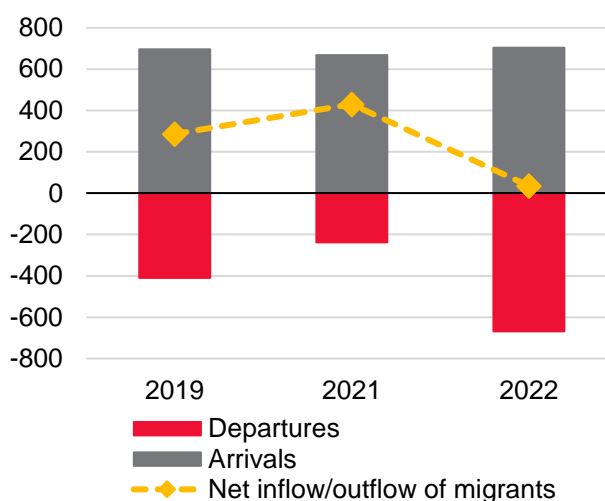
Additional risks of rigidity increase arise from a long-term trend towards expansion of the share of cohort aged over 40 years in labour force, which is [forecast](#) to rise to 63% by 2030 (Figure 40). The natural demographic trend used to be offset by a significant inflow of migrants, which has now contracted notably (Figure 41).

Figure 40. Labour force headcount by age, thousand people



Sources: Rosstat, R&F Department estimates.

Figure 41. International migration, thousand people



Source: Rosstat.

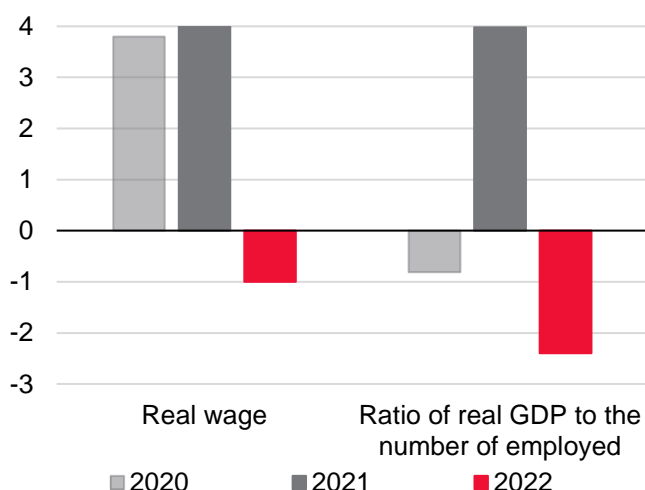
Therefore, the low inter-industry and interregional labour mobility may come as one important factor governing the pace and effectiveness of structural transformation of the economy amid new realities. To gradually improve labour mobility in the economy, several steps could be taken.

- 1) Renounce artificial employment maintenance in industries facing a structural drop in demand for their products, giving instead priority to encouraging employment in industries which may operate as drivers for future economic growth in the environment of ongoing structural change.
- 2) Create incentives and facilities for retraining and acquiring new professions and skills. Demands on personnel in growing industries are often different from the set of skills and competencies offered by job applicants. This is one of the obstacles to changing a job for many of them. The opportunity to acquire new skills and knowledge or bring the old ones up to date could improve the effectiveness of new personnel recruitment and encourage workers to move to other companies.
- 3) Development of the rental housing market. One obstacle to moving to another region in order to get a new job is difficulties in finding rental housing. The organisation of commercial rental process (rental homes) and the institutionalisation of the rental housing market could drastically improve interregional mobility through cutting the possible costs of workers' move to another region. A separate important problem is what is to be done about the real property of those who made up their mind to move to a new place. Indeed, the share of privately owned real estate is high in Russia. Ownership of an apartment is

an important argument against moving to another region. The opportunity to rent it out with the help of reliable agents could also make it easier for people to move.

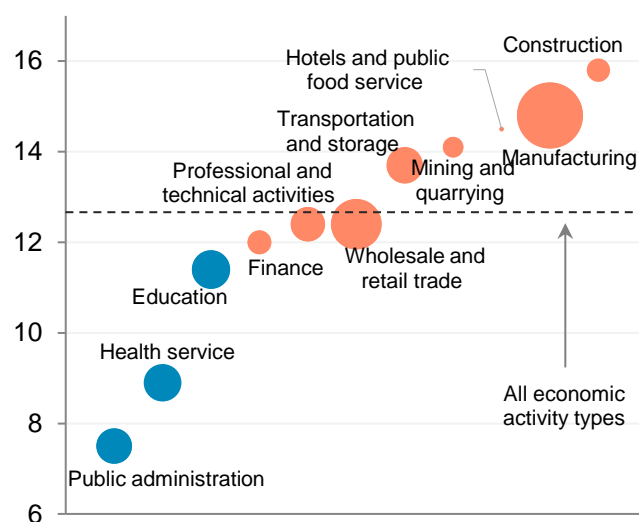
The implementation of the above measures and materialisation of the required effect in the labour market will certainly take time. Therefore, the labour market situation will presumably be restraining the pace of the Russian economy's structural transformation for a fairly long time to come.

Figure 42. Real wages and productivity, % YoY



Sources: Rosstat, R&F Department estimates.

Figure 43. Wages by economic activity type in January–December 2022, % YoY



Note. The size of the circles correspond to an economic activity's input to the gross payroll fund.

Sources: Rosstat, R&F Department estimates.

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