Bank of Russia

TALKING TRENDS
Economy and markets

Research and Forecasting Department Bulletin

September 2023

CONTENTS

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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

- The Russian economy continued to grow relatively fast in July–August. Industries supported by public demand, as well as consumer goods and services industries are still increasing output. Further active expansion of retail lending, driven by more positive consumer sentiment and higher labour incomes, is an additional factor pushing up domestic demand. The rise in stable components of inflation and consumer prices overall has sped up considerably. This acceleration is caused by serious resource constraints, specifically those related to workforce, production capacities and technologies. A stronger pass-through of the ruble depreciation and higher inflation expectations are important proinflationary factors as well.
    - According to high-frequency indicators and survey results, aggregate demand in the economy continues to expand amid high business and consumer confidence. Credit activity has surged, speeding up the increase in domestic demand. Consumers are shifting from savings towards higher consumption, thus also contributing to the rise in the demand for goods and services. The key rate increase will be moderating credit activity and demand gradually.
    - Seasonally adjusted growth of consumer prices accelerated in July–August to notably exceed 4% in annualised terms. The surge in domestic demand surpasses manufacturers' capacities to meet it, which is associated with production and labour market constraints. These conditions have caused an increase in imports, which, coupled with stabilising exports, is an important factor weakening the ruble. Both these factors support the surge in prices. Furthermore, higher inflation expectations due to a weaker ruble might become another proinflationary factor. Monetary policy tightening is normalising domestic demand dynamics and helps reduce inflationary pressure in the economy.
    - After the key rate increase in August, the yield curve of federal government bonds has almost flattened, and the risk premium in medium- and long-term bond yields has declined nearly to zero. Nevertheless, yields along the entire curve are below the key rate, which is evidence that market participants expect monetary policy easing in the future after the inflation trends reverse.

In focus. Retailers have updated their product range and restored item lists

- Statistics collected on a large online aggregator show that, generally, retail chains almost restored the product mix by early March 2023, as compared to late February 2022: the food segment – predominantly by substituting imports from unfriendly states for domestic alternatives, while the non-food segment – for alternatives supplied from friendly countries.
- As consumers prefer to save more on purchases, demand shifted from premium to low segment shops, the share of promotional goods and the average discount increased,

primarily in the non-food segment, and the share of private label goods in some product categories surged.

- Price dynamics in the majority of analysed categories were close to Rosstat's data on respective product groups. Some differences were apparently associated mostly with the specifics of statistical recording of discounted prices for promotional and private label products.

1. Inflation

An ongoing upward trend in consumer prices gained strength in July–August, spreading to many groups of goods and services. Ruble weakening continuing since mid-2022 reached a level where the exchange rate pass-through to consumer prices made itself felt more strongly. The stocks of imported goods purchased earlier at a more beneficial exchange rate and the retail profit margin ceased to contain consumer price rises. This was fuelled by further consumer demand expansion amid income and retail lending growth. A buoyant increase in demand outpacing supply growth potential also ramped up a rise in the prices of goods and services with a small import component in them.

Therefore, given a strong inertia of the ongoing price movements, they are creating risks to inflation’s return to the target in 2024. This has called for resolute monetary policy measures. That said, one should bear in mind that it is not the nominal level of the key interest rate and other rates in the economy that determine the degree of monetary policy stringency but their real level, i.e., the difference between nominal interest rates and economic agents’ inflation expectations. It takes some time (several quarters) for monetary policy to have a full effect on aggregate demand’s return to normal, and via this on the turnaround of inflation trends. This requires a longer maintenance of tight monetary policy than in similar episodes of past years.

1.1. Inflationary pressure steeply rises

- Consumer price growth has dug in far above the 4% trajectory in recent months, with a trend towards further acceleration continuing. Price rises notably gained pace in July–August, with the indicators of stable price pressures going up above the 4% level in annualised terms, suggesting a strengthening of the overall inflation trend.
- Consumer activity is growing at a faster pace than production potential. This spurs consumer price rise acceleration, due to, among other things, pass-through of increasing costs to end prices. A rise in inflation expectations amid ruble weakening has come as an additional proinflationary factor.
- The Bank of Russia’s monetary policy decisions will help a more balanced demand dynamic and normalisation of inflationary pressure.

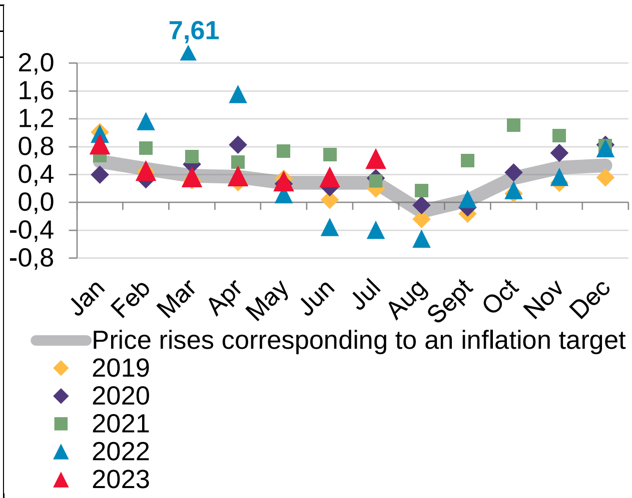
Month-on-month consumer price rises sharply accelerated to 12.2% MoM SAAR in July from 5.6% MoM SAAR in June. The goods segment borne the brunt of it, with the pace of price rises in services remaining elevated (Figure 3). Annual inflation went up to 4.30% versus 3.25% a month earlier (Table 1, Figure 2), Figure 3), while its estimate rose to 5.1% as of 28 August as price rises continued at an elevated rate (Figure 4, Figure 5) and the low pace of price growth in the summer of 2022 exited the calculation base.

Table 1. Inflation and its components

	July	July	May	June	July
	2021	2022	2023		
% YoY					
All goods and services	**6,5**	**15,1**	**2,5**	**3,3**	**4,3**
Core inflation	**6,8**	**18,4**	**2,1**	**2,4**	**3,2**
Food	7,4	16,8	-0,9	0,2	2,2
Non-food goods	7,6	16,5	0,2	1,0	2,4
Services	3,8	10,8	11,0	11,0	10,0
% MoM SAAR					
All goods and services	**5,2**	**-3,3**	**5,1**	**5,6**	**12,2**
Core inflation	**7,7**	**-0,3**	**6,2**	**6,8**	**8,4**
Food	3,0	-9,6	-1,2	4,9	16,1
– net of fruit and vegetables	**6,8**	**-0,3**	**5,1**	**6,4**	**5,4**
Non-food goods	10,7	-4,3	4,7	6,1	12,4
– net of refined petroleum products and tobacco	**10,2**	**-5,2**	**2,7**	**4,0**	**10,1**
Services	1,6	8,4	15,0	5,8	6,9
– net of housing and communal services	**1,6**	**9,0**	**21,5**	**6,4**	**8,0**

Sources: Rosstat, R&F Department estimates.

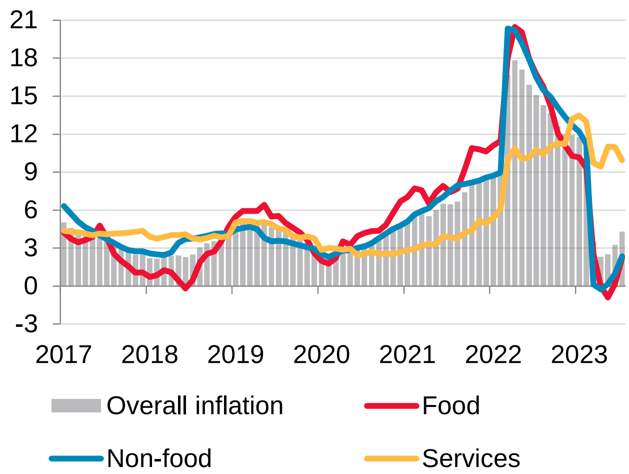
Figure 1. Price rises corresponding to an inflation rate of 4%, % MoM



Sources: Rosstat, R&F Department estimates.

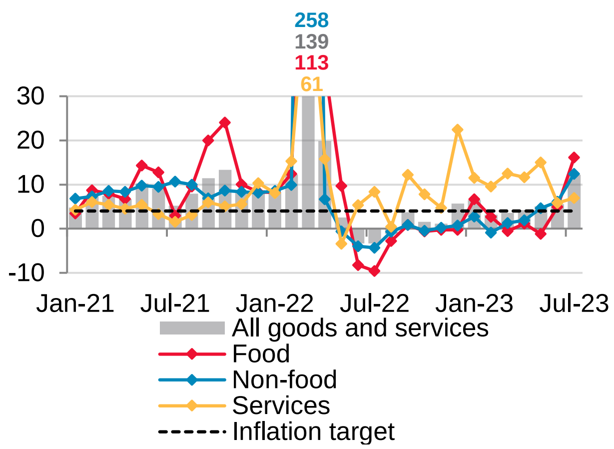
Food price growth accelerated to 16.1% MoM SAAR in July from 4.9% MoM SAAR in June. Acceleration this strong stemmed from fruit and vegetable price rises contrary to the normal seasonal pattern of a price decline in the middle of summer. Moreover, vegetable prices were falling, whereas fruit prices were rising at an increased pace, largely driven by ruble weakening. Fruit and vegetables prices, however, started to fall in August, sliding at a generally normal seasonal pace towards the end of the month. Therefore, their impact on the overall inflation notably subsided.

Figure 2. Inflation and its components, % YoY



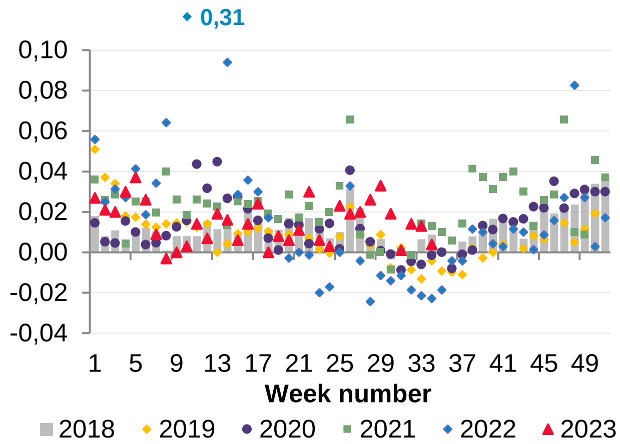
Sources: Rosstat.

Figure 3. Seasonally adjusted price growth, % MoM SAAR



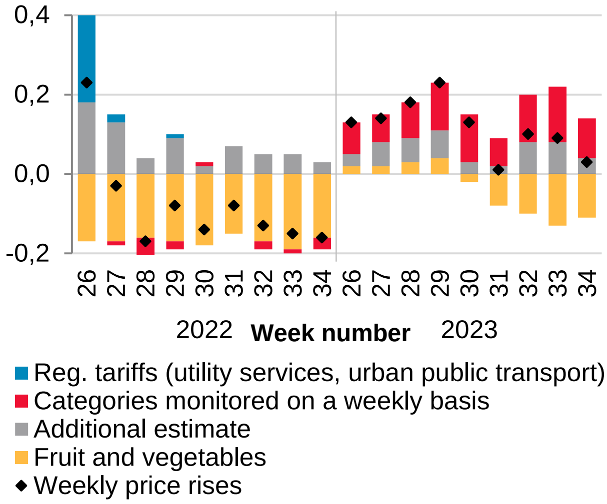
Sources: Rosstat, R&F Department estimates.

Figure 4. Average daily price growth, %



Sources: Rosstat, R&F Department estimates.

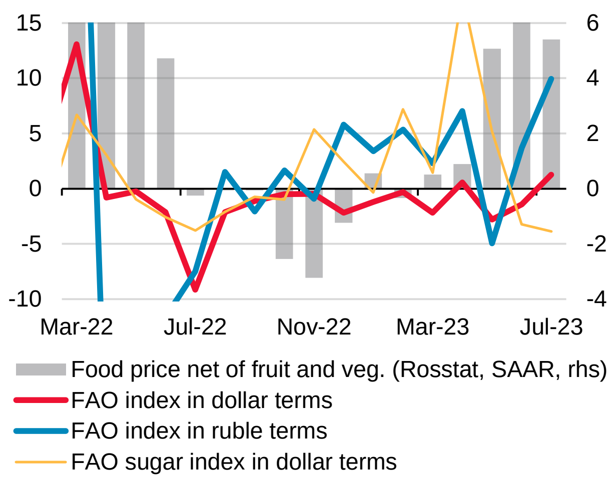
Figure 5. Decomposition of weekly price rises, pp



Sources: Rosstat, R&F Department estimates.

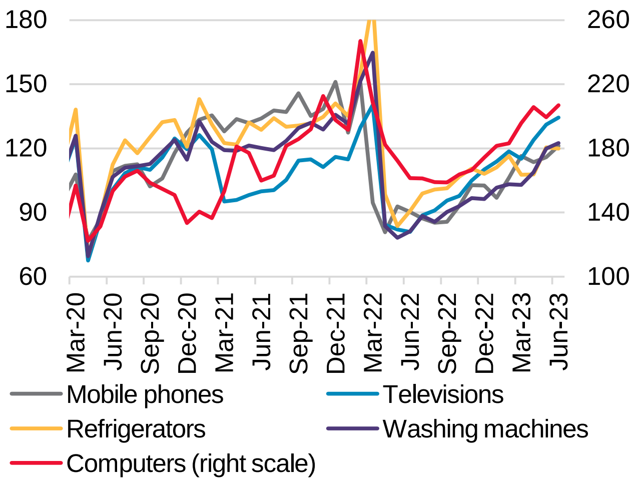
Net of fruit and vegetables, food price growth slowed (to 5.4% MoM SAAR from 6.4% MoM SAAR) but remained above the Bank of Russia's target. Price growth remains accelerated in meat products, eggs, and sugar. Whereas meat product price rises were chiefly driven by chicken meat in May–June, they also affected other meat products (in particular, substitutes) in July–August. Producers are reporting growth in demand for meat products, which enables rising costs to be passed through to prices. The pace of sugar price rises so far remains elevated despite some world price decline, but producers fear a resumption in price rises should restrictions on the import of sugar beet seed be put in place. World dollar price hikes and ruble weakening are carrying additional proinflationary risks in the food segment (Figure 6).

Figure 6. Global and domestic food prices, % MoM SA (in annualised terms)



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

Figure 7. Sales of electronic goods, SA, December 2019 = 100



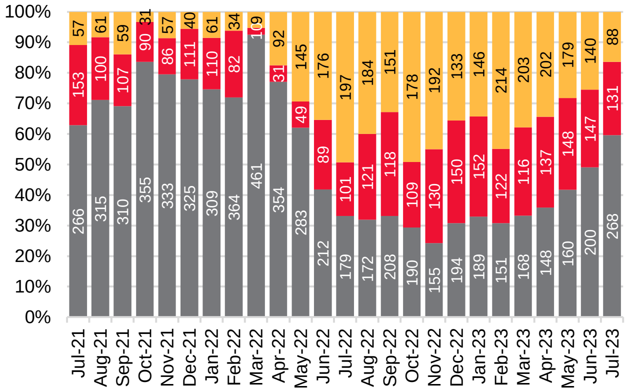
Sources: Rosstat, R&F Department estimates.

The non-food segment saw price growth accelerating to 12.4% from 6.1% MoM SAAR, driven most of all by a price reversal in electronic goods. Market participants attribute price rises in these goods to ruble weakening and expect upward movements there in the coming months amid growing demand (Figure 7). The exchange rate has also brought about price rise acceleration in foreign, primarily used, car brands. Given an upturn in demand for new and used cars alike, the rise in their prices may continue. Overall, July saw the pass-through of ruble weakening to prices, fairly moderate before that, gaining strength. This is evidenced by a sharp increase in the median of price rises in components sensitive to exchange rate fluctuations (Figure 10).

A sizeable input to price increases came from fuel prices climbing in the wake of export price rises. The damper mechanism mitigates the impact of changes in pricing conditions but fails to fully neutralise it. The wholesale petrol and diesel prices have, however, reached a threshold above which payments under the damper mechanism are no longer due, which, in our view, considerably limits price rise potential.

Services prices climbed 6.9% MoM SAAR in July (net of tourism and air transport services – 5.4%), steadily remaining above the 4% trajectory.

Figure 8. Aggregate weight of goods and services* distributed based on seasonally adjusted price growth

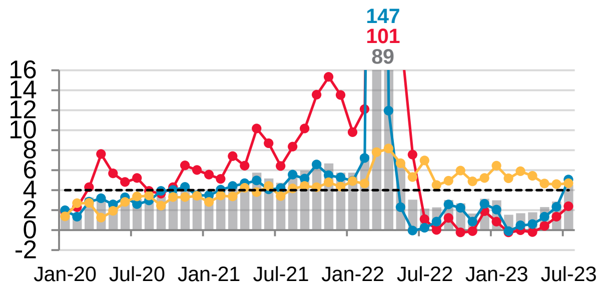


** Net of fruit and vegetables and regulated services.*

Note. The figures stand for the number of items.

Sources: Rosstat, R&F Department estimates.

Figure 9. Distribution medians calculated on disaggregated components*, % MoM SAAR

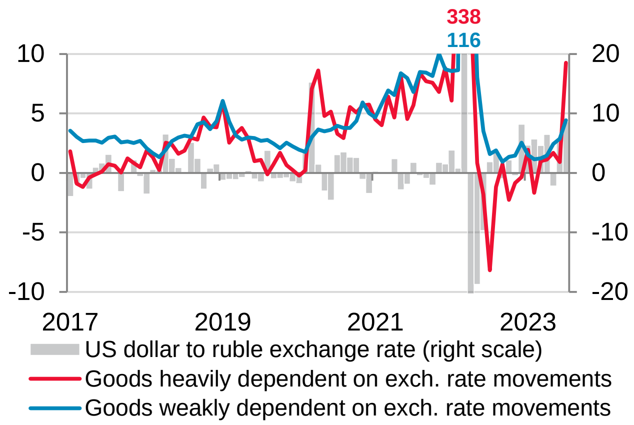


** 566 components in the 2023 basket.*

Sources: Rosstat, R&F Department estimates.

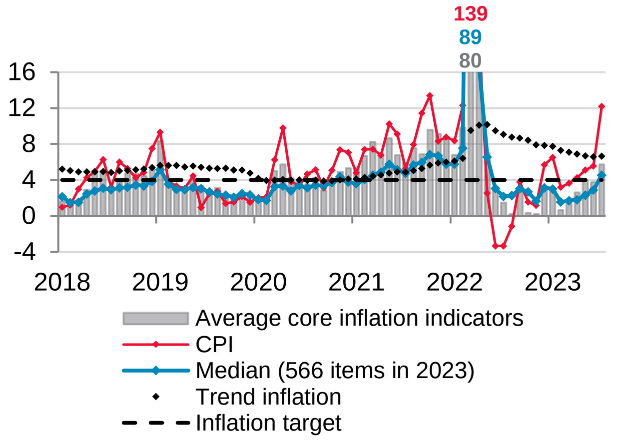
A variety of analytical indicators reflect a notable increase in inflationary pressure, even upon adjustment for all kinds of temporary and one-off factors. The weight of items showing an accelerated price growth continued to rise in July (Figure 8). That said, distribution among items rising in price at an accelerated and moderate pace and those falling in price became close to that in July 2021, when price rises were also gaining momentum amid the post-pandemic recovery of demand. The distribution median went up, driven most of all by the non-food segment (Figure 9). The indicators of stable price movements also increased: the trend inflation estimate rose for the first time since the spring of 2022 – to 6.64% from 6.57% in June; the mean of modified core inflation indicator estimates climbed above 4% in annualised terms (Figure 11).

Figure 10. US dollar to ruble exchange rate (%) and median CPI (% MoM SAAR)



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

Figure 11. Modified core inflation indicators* (% in annualised terms) and trend inflation estimate (%YoY)



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

Sources: Rosstat, R&F Department estimates.

Bank of Russia Business Monitoring registers a sharp increase in companies' price expectations in August amid an overall rise in costs across industries. Their translation into consumer prices may gain strength, given climbing household inflation expectations (according to an inFOM poll, August saw inflation expectations rise on a year's horizon) and a continued high level of consumer activity amid income expansion and unemployment contraction (see Section 2.1).

The Bank of Russia's monetary policy decisions will help gradually cool demand and bring it into line with output expansion potential. This is set to ease inflationary pressure and drive inflation back to 4% in 2024.

2. Economic activity

Despite the increasing constraints on the side of production factors, Russia's economic growth continued in the second half of the summer. The signs of a slowdown, which, based on survey data, were seen in June and July, gave place to a new round of expansion in August.

Geopolitical shocks dragged down the level of potential GDP in 2022–2023. At the same time, rising demand from the budget partially replaced the lost export demand in some industries (for instance, in the manufacture of metals), while in other sectors increasing demand exceeded the production potential in the face of logistics constraints (for example, in the manufacture of machinery and equipment).

Together with the strong credit impulse, this factor has, by now, made GDP exceed its new potential level. This provides an answer to the question why the overall recovery of GDP to just its pre-crisis level, has caused demand to exceed the supply of goods and services, giving rise to a significant inflationary pressure.

The period in question has also seen an increase in the part of GDP structure unrelated to the production of goods and services which meet final consumer or investment demand. This has come as yet another factor underlying a rise in demand ahead of the production capacity for goods and services and a surge in inflationary pressure. In this situation, it is essential that the credit impulse be sufficient but not excessive, so that price stability can be maintained. The current fast pace of corporate and retail lending growth runs counter to this requirement.

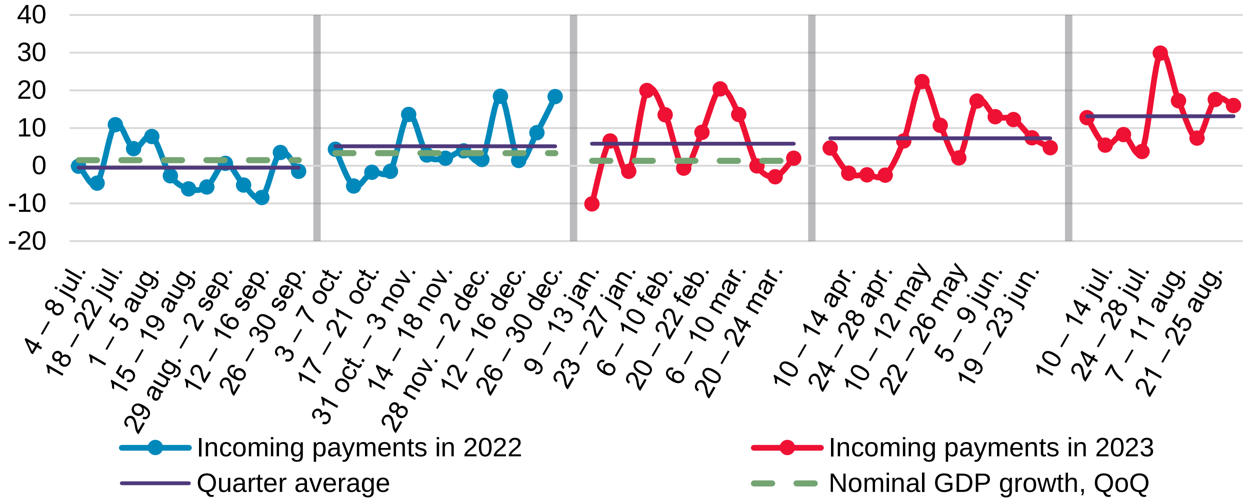
2.1. Completion of recovery growth phase

- The economy seems to have exceeded its potential level. This means that after the recovery period, the economy will grow at a more moderate pace. The initial Rosstat estimate of Q2 GDP growth indicates a slowdown in quarter-on-quarter growth from 0.7% QoQ SA[1] to 0.1% QoQ SA. That said, many real-time indicators of domestic demand suggested a more significant expansion, therefore, GDP performance was likely contained by the cooling of external demand and a sizeable import recovery. This is borne out by both a widening divergence between GDP growth and core industries' output (Figure 13) and statistics of incoming payments in the Bank of Russia's Payment System (Figure 12).
- The key output growth driver in the second quarter and the start of the third quarter was manufacturing buoyed by a consistent expansion in, above all, investment[2] and consumer demand from the government and private sectors (Figure 16). Mining and quarrying output is generally stable this year (Figure 15) but may have additionally declined in August on the back of Russia's decision to voluntarily scale down petroleum exports.
- Consumer activity is steadily expanding. Q2 household expenditure reached a level recorded at the end of 2021 – the start of 2022 (Figure 17). This was owed to fast, by historical standards, real wage growth (Figure 21), which is a key factor behind household income expansion, the record-high level of consumer optimism (Figure 19), and a decline in households' savings ratio[3] (Figure 20).
- Potential for fast output growth is likely exhausted in most industries. Real-time survey-based indicators[4] (Figure 14) suggest a possible slowdown in business activity expansion in Q3. Along with a record-high and possibly close to ultimate capacity utilisation, the growing labour shortage comes as a constraint on companies' further output expansion. Strong labour demand amid record-low unemployment (Figure 22) fuels fast wage growth. This provides an important contribution to a rise in domestic demand, which outruns output growth potential.

[1] Seasonally adjusted R&F Department estimate based on a preliminary Rosstat estimate of Q2 GDP (up, 4.9% YoY).
[2] Related to both the defence industry and production of civil goods.
[3] Relative to its level in the same quarter of the previous year. This is largely due to loan demand expansion.
[4] Bank of Russia, PMI, Institute for Economic Policy's Industrial Optimism Index corrected 3 points up after a two-month fall.

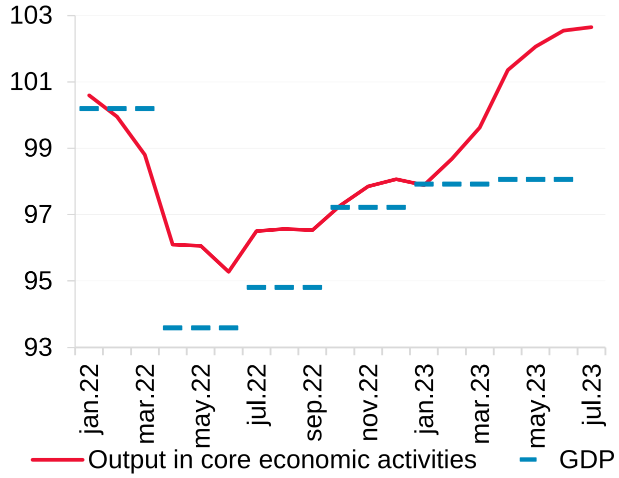
- Thus, the current conditions indicate that the balance of risks is continuing to shift towards proinflationary factors. Monetary policy measures coupled with the expected return to the fiscal rule parameters will help gradual cooling of domestic demand, and accordingly, balanced economic growth with inflation kept at the target.

Figure 12. Incoming payments growth[5] relative to the previous quarter average weighted by industries' shares in gross value added, seasonally adjusted, %



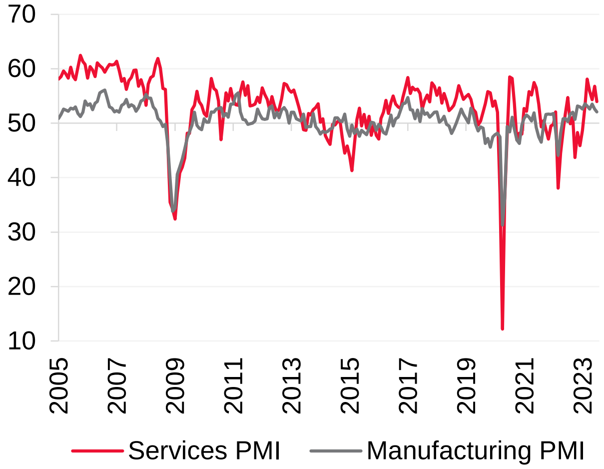
Sources: Bank of Russia, Monitoring of individual industries' financial flows.

Figure 13. Output in core economic activities and GDP, index, 2021Q4 = 100



Sources: Rosstat, R&F Department estimates.

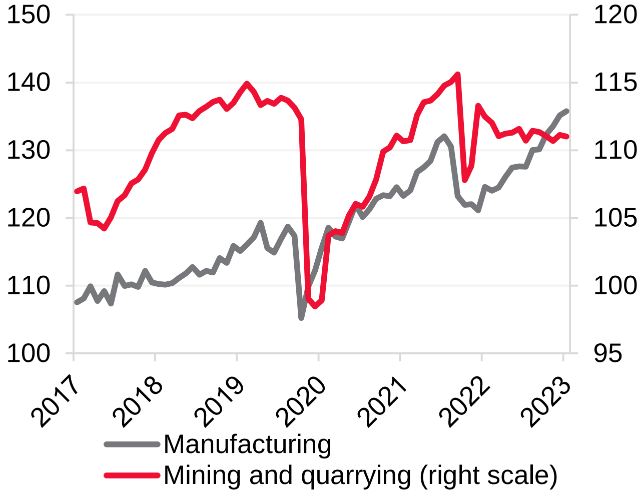
Figure 14. Russia's Manufacturing and Services PMI, points



Source: S&P Global.

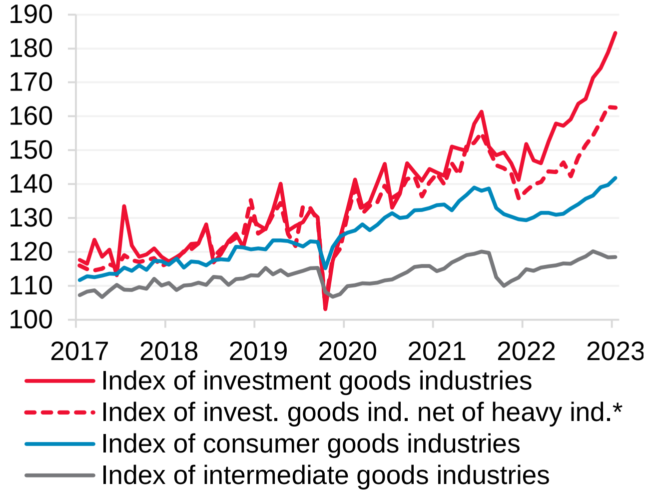
[5] Growth means a percentage change in the sought for value: $g = \frac{(x_1 - x_0)}{x_0} * 100.$

Figure 15. Mining and quarrying and manufacturing indices (2014 = 100)



Sources: Rosstat, R&F Department estimates.

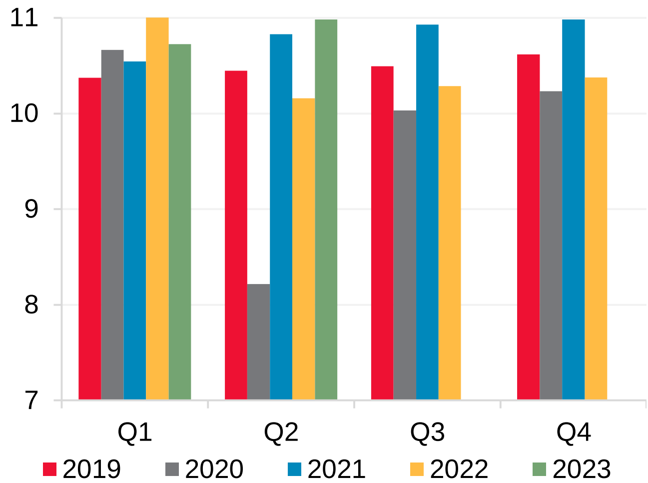
Figure 16. Output in groups of manufacturing industries, SA, 01.2016=100%



**The production of "finished metal products other than machinery and equipment" and "other vehicles and equipment" are excluded.*

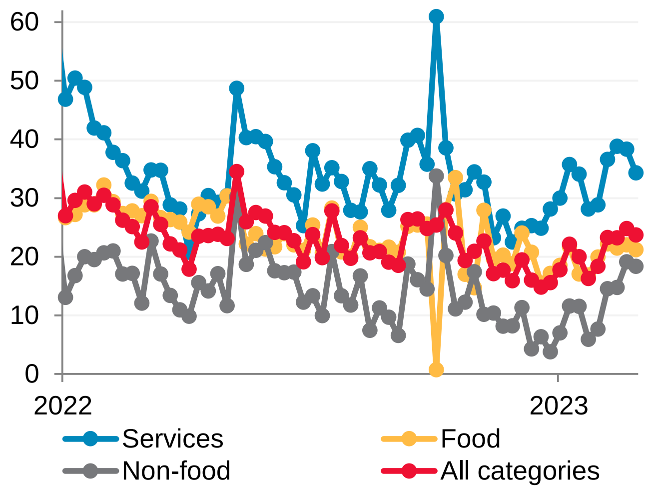
Sources: Rosstat, R&F Department estimates.

Figure 17. Proxy indicator of consumption (retail, public food service and services sales) at 2019 prices, trillion rubles, SA



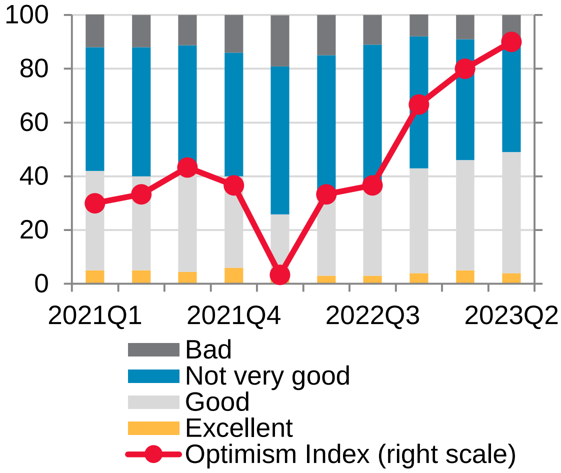
Sources: Rosstat, R&F Department estimates.

Figure 18. Nominal weekly household expenditure relative to the same week two years earlier, %



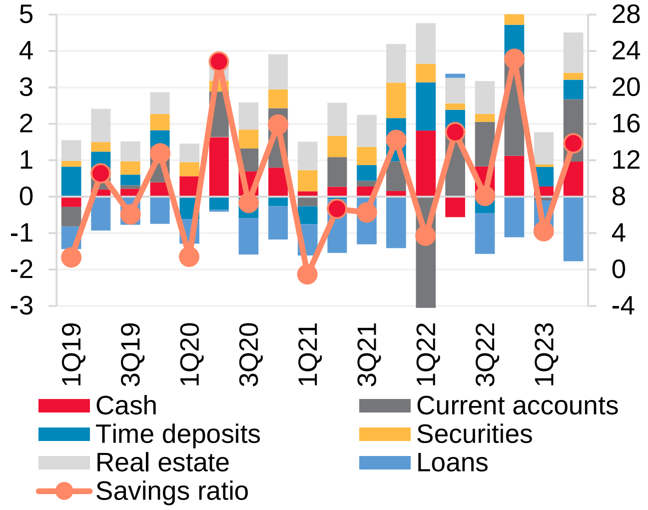
Source: SberIndex.

Figure 19. Answers to the question of whether it is a good time for buying new things; Consumer Optimism Index, %



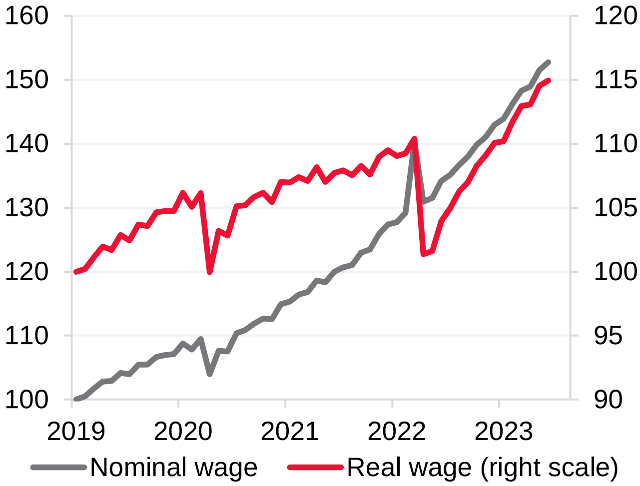
Source: NielsenIQ.

Figure 20. Key savings components (trillion rubles) and household savings ratio, % (right scale)



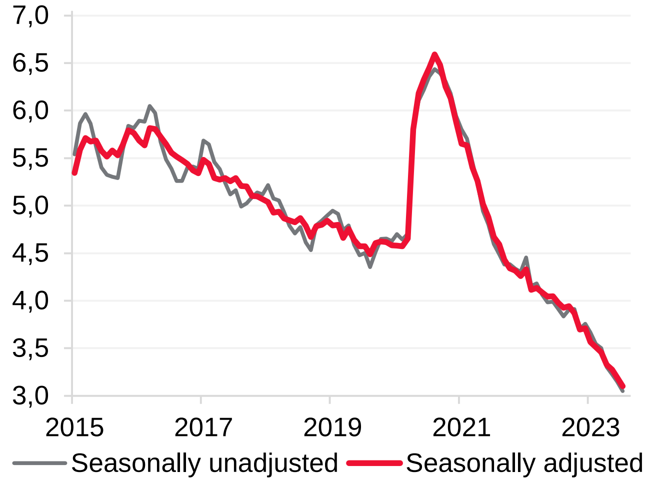
Source: Rosstat, R&F Department estimates.

Figure 21. Wage indices, SA, 01.2019 = 100



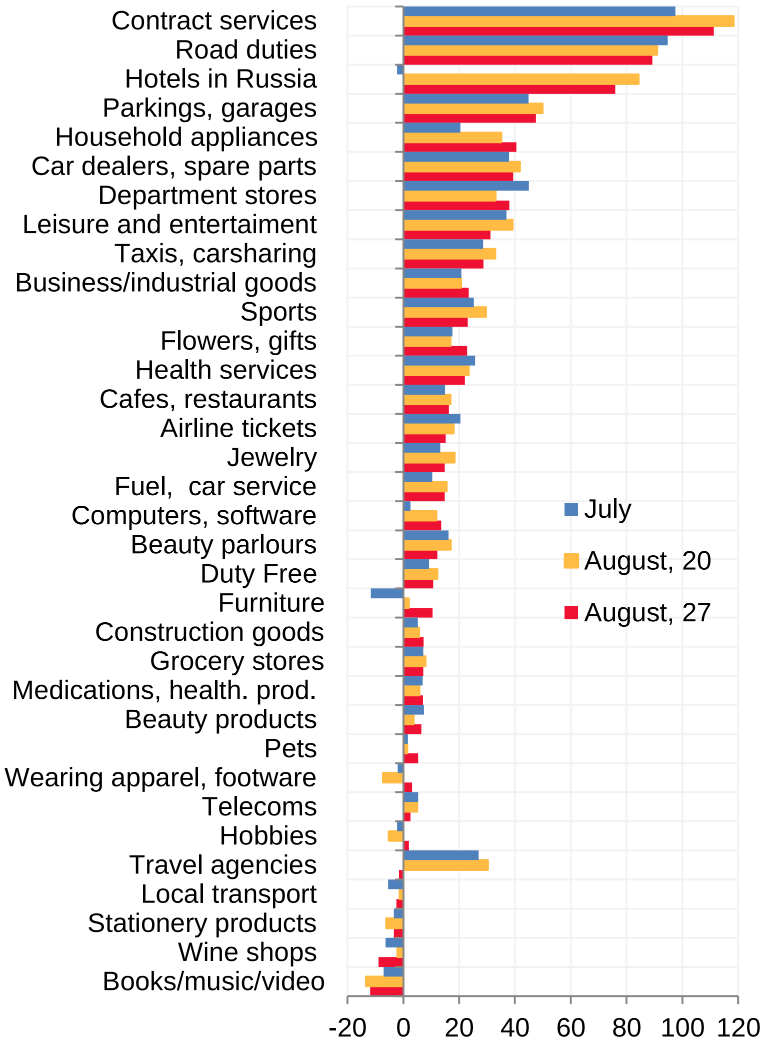
Source: Rosstat, R&F Department estimates.

Figure 22. Unemployment rate, %



Source: Rosstat, R&F Department estimates.

Figure 23. Growth in nominal spending on individual categories, % YoY



Source: SberIndex.

2.2. Robust lending growth in all segments

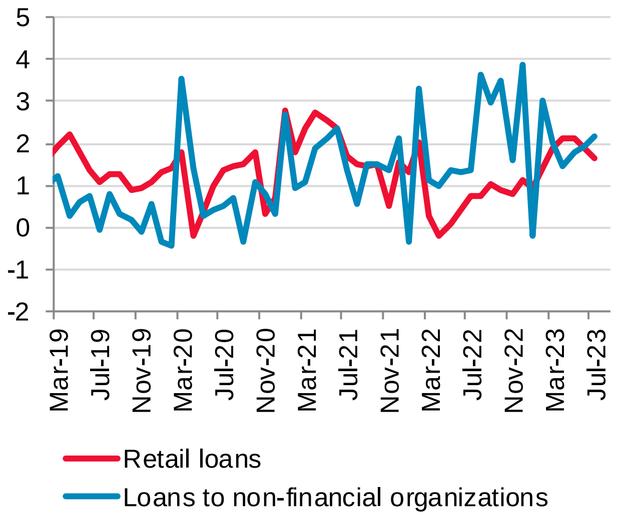
- Lending growth remained strong at the start of Q3, providing a significant contribution to aggregate demand expansion.
- We estimate that retail lending growth slowed to 1.6% MoM SA in July from 1.9% MoM SA in June (Figure 24), dragged down chiefly by the mortgage loan portfolio. Unsecured loan growth accelerated to 1.5% MoM SA in July from 1.4% MoM SA a month earlier (Figure 25). Auto loans continued to expand at an elevated rate in July, reaching 4% MoM SA. This trend reflects the process of car market recovery, including through the realisation of pent-up demand amid growing supply of cars in the market.
- Mortgage loan portfolio growth inched down to 2.6% MoM SA from 2.9% MoM SA. Debt expansion slowdown is technical in nature: a large proportion of the mortgage loan portfolio on banks' balance sheets was written off as part of securitisation transactions. Mortgage loan demand remained robust: the number of mortgage loan applications and

that of mortgage loan transactions continued to increase since March 2023 (Figure 28). July saw a total of loan provision under subsidised mortgage loan programmes hit the highest level since the start of the year (Figure 29). That said, the demand structure showed a shift towards the new housing market, i.e., subsidised mortgage loans. This may have stemmed from a hike in market rates on mortgage loans following an increase in the key interest rate.

- Growth in ruble loans to non-financial organisations continued to accelerate, up 2.2% MoM SA in July from 1.9% MoM SA in June. Based on our estimate, this trend was posted across all loan maturities as demand for financing investment and ongoing operations alike increased.
- Expansion in household ruble deposits slowed to 1.6% MoM SA in July from 2% MoM SA a month earlier, remaining, however, strong. Foreign currency deposits continued to contract, due to, among other things, banks' efforts to scale down dollarisation of liabilities following its shrinkage on the side of assets: banks[6] continue to introduce additional fees for transactions in 'unfriendly' currency deposits and to reduce the range of deposits denominated in these currencies.
- Corporate ruble deposits accelerated their growth to 1.0% MoM SA from 0.3% MoM SA. In spite of this, the pace of deposit growth stays within the bounds of average monthly expansion rate over 7 months of 2023. Strong deposit growth buttressed by lending and budget spending contributed to continued fast growth in broad money expansion (Figure 31).
- The key interest rate hikes, to 8.5% in July and to 12.0% in August, are set to have an effect on the banking sector's performance. Banks have already started to raise interest rates on their loan and deposit products, which will eventually slow loan demand growth and enhance the attractiveness of deposits.
- That said, the effect of the interest rate hikes may be slightly distorted in some lending segments due to subsidised lending programmes. In particular, an increase in interest rates on market mortgage lending in August (Figure 30) may lead to a further shift in demand in this segment towards subsidised programmes, interest rates on which remain unchanged. According to a preliminary estimate, loans extended under subsidised programmes may have hit a record high. Nevertheless, the tightening of macroprudential requirements as of 1 October may limit the building up of risks in this segment, ensuring balanced growth even amid increased demand for subsidised mortgage loans.
- One can also expect some growth in demand for subsidised auto loans but to a lesser extent than in mortgage lending. The rationale for this is that a car purchase is subsidised through a price discount rather than via an interest rate on a loan. The share of subsidised lending in the corporate segment is low, therefore, the effectiveness of transmission of a key interest rate interest increase to the pace of lending growth will not be significantly distorted.

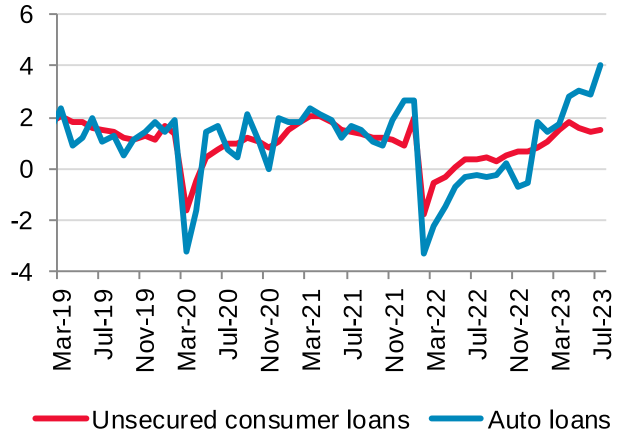
[6] Above all, major banks from the top-30 group.

Figure 24. Ruble loans portfolio growth, % MoM SA



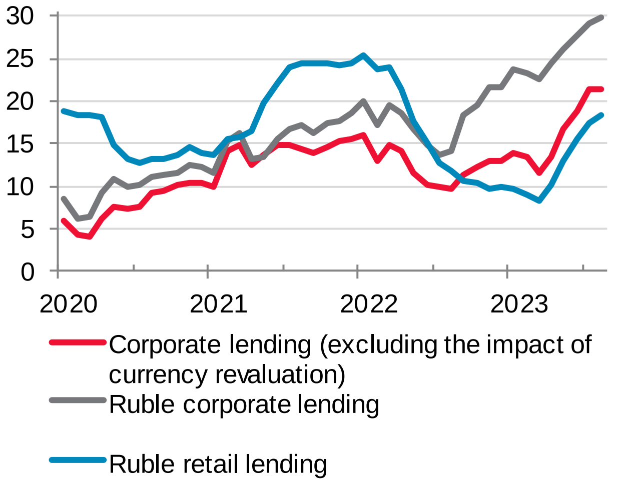
Sources: Bank of Russia, R&F Department estimates.

Figure 25. Retail loans portfolio growth, % MoM SA



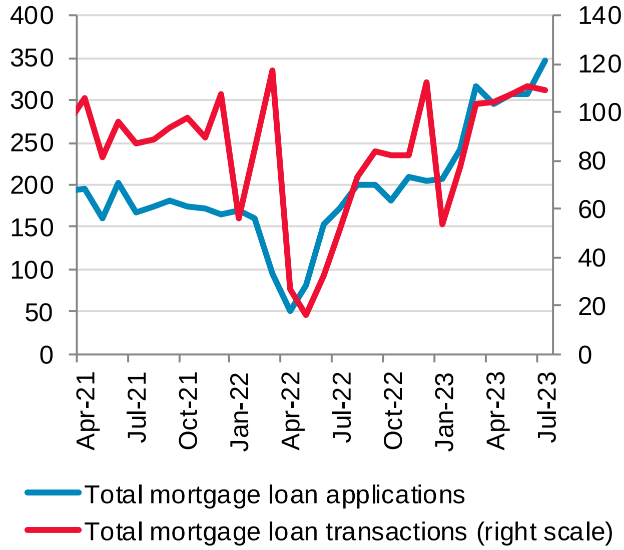
Sources: Bank of Russia, R&F Department estimates.

Figure 26. Loans portfolio growth, % YoY



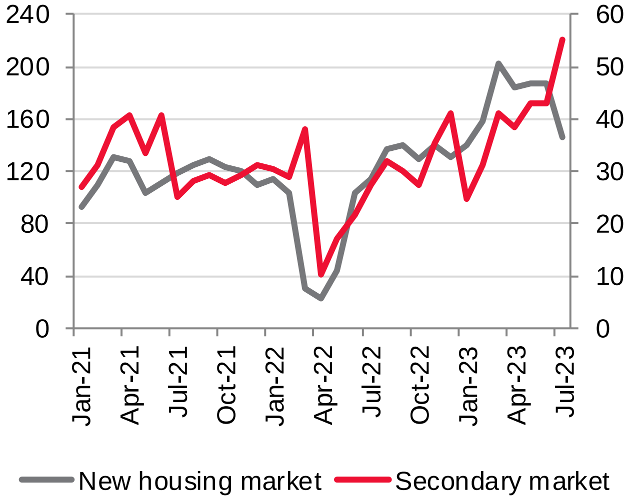
Sources: Bank of Russia, R&F Department estimates.

Figure 27. Loan applications and mortgage loan transactions, thousand



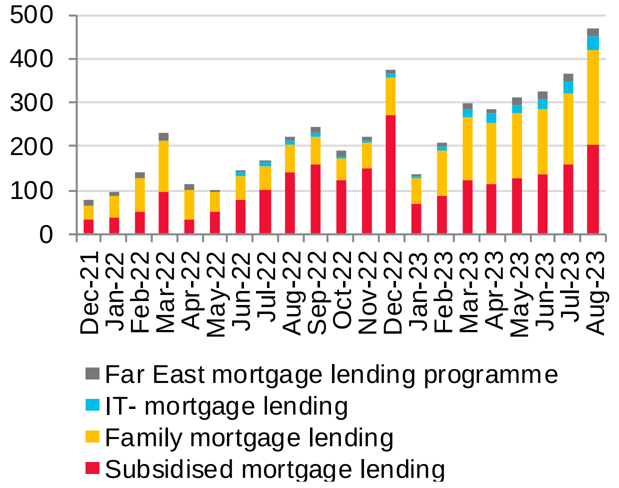
Sources: Domklik, R&F Department estimates.

Figure 28. Approved mortgage loan applications, thousand



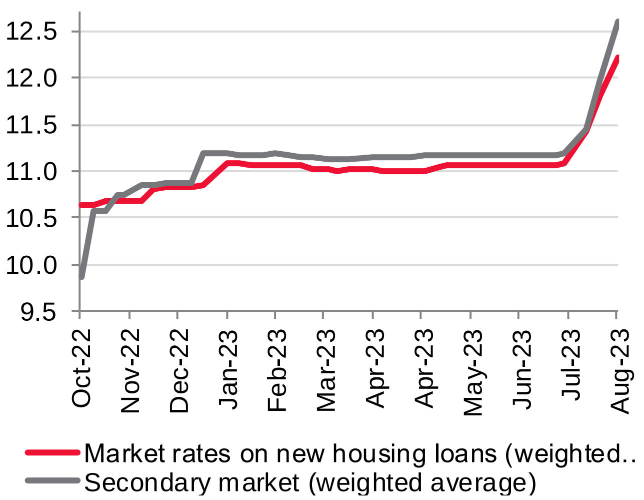
Sources: Domklik, R&F Department estimates.

Figure 29. Loan issuance under subsidies mortgage loan programmes, billion rubles



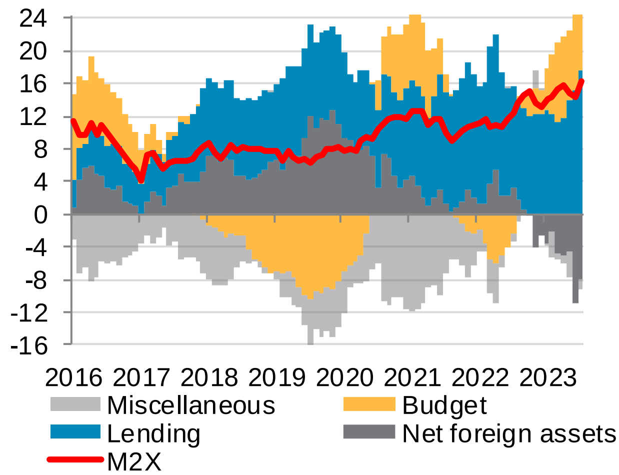
Note: August 2023 is calculated according to the data on 25.08.
Sources: Domklik, R&F Department estimates.

Figure 30. Weighted average interest rate offered by Russia's top-20 banks providing mortgage loans, %



Sources: DOM RF, R&F Department estimates.

Figure 31. Key drivers of annual growth in broad money supply on the asset side, %



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

In focus. Retailers refresh their product mix and restore product range

- Data obtained from a large online aggregator indicate that retail chains' product mix was practically restored at the start of March compared with end-February 2022: above all through replacing producers from unfriendly countries with domestic analogues in the food segment and with those from friendly countries in the non-food sector.
- Consumers' demand for greater savings on purchases was reflected in the shift of the product mix from premium to low segment shops along with a substantial rise in the share of promotional goods and an average discount increase primarily in, the non-food segment, as well as a notable expansion in the share of private label goods in some product categories.
- Price movements in most of the categories under analysis are close to Rosstat data on the relevant product groups. Some differences are likely most of all owed to the specifics of statistical recording ofpromotional and private label products.

Russia's consumer market has been undergoing massive restructuring since Q2 2022, triggered by the exit from Russia of a number of foreign producers and suppliers along with consumer activity fluctuations in the face of external and domestic challenges. These changes add up to long-term trends of supply adjustment to changing consumer preferences.

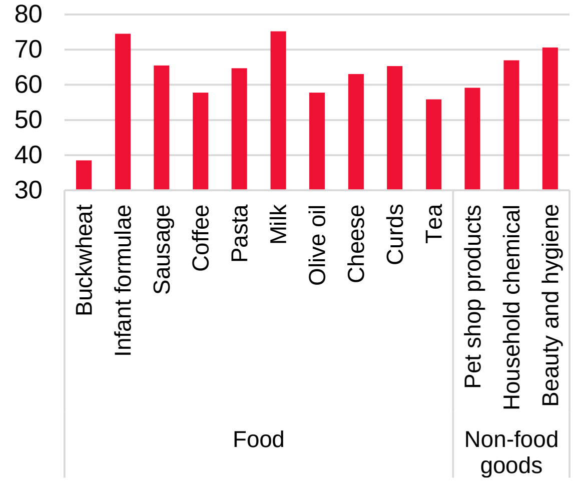
Below we analyse these changes using an online aggregator's data on retail chains' product mix and prices over the period from February 2022 to March 2023. Products from categories which are very closely comparable to those from the Rosstat consumer basket and account for a large share of it were selected for this purpose.

Overall, the product mix in the sample under analysis had contracted just 2% by the beginning of March compared with late February 2022. That said, the product mix was substantially overhauled, with products which were not represented on retailers' shelves in February 2022 accounting for 65% of it. (Figure 32). The product mix change varied widely across product categories, ranging from a 27% contraction in the olive oil category to a 34% expansion in household chemical products (Figure 34).

The geographical structure of producers supplying the product mix found in shops also changed substantially. In most categories, the supply of goods produced in unfriendly countries declined, but a complete departure of unfriendly countries' producers was not registered in any category[7]. Items which disappeared from the shelves were mostly or fully substituted with goods from friendly countries and/or those produced in Russia (Figure 33).

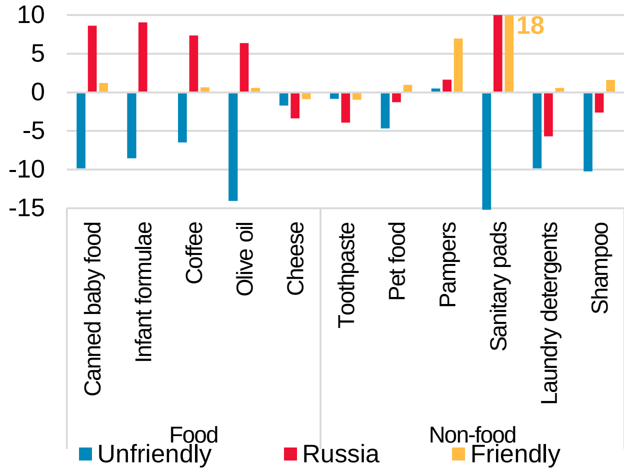
[7] A producer country was identified based on open information found on Internet. Primarily, information from the cards of identical goods in domestic marketplaces and producers' (brand) sites. The list of unfriendly countries complies with RF Government Directive No. 430-r of 5 March2022 (revised 29 October2022). All private label goods are dimmed to have been manufactured in Russia. The methodology used may have failed to fully reflect the real geography of production, but such distortions were reduced to a minimum.

Figure 32. Share of new items in product mix by product category (2023 vs 2022), %



Sources: Aggregator site data, R&F Department estimates.

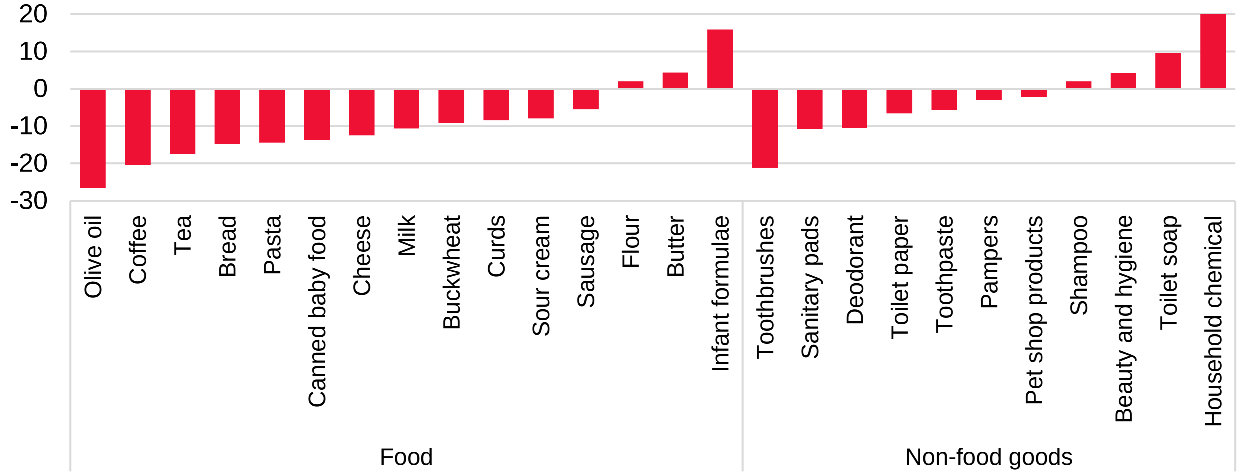
Figure 33. Change in shares of product mix by producer country, 2023 vs 2022, pp



Sources: Aggregator site data, R&F Department estimates.

Food products were primarily substituted with domestically produced goods, whose share in the market increased still further. The substitutes in the non-food segment largely came from friendly countries. Overall, a substantial overhaul of the product range helped some producers that were previously unable to compete with large companies boasting big marketing budgets, have their products represented on retailers' shelves.

Figure 34. Change in the volume of product mix by category, 2023 vs 2022, %

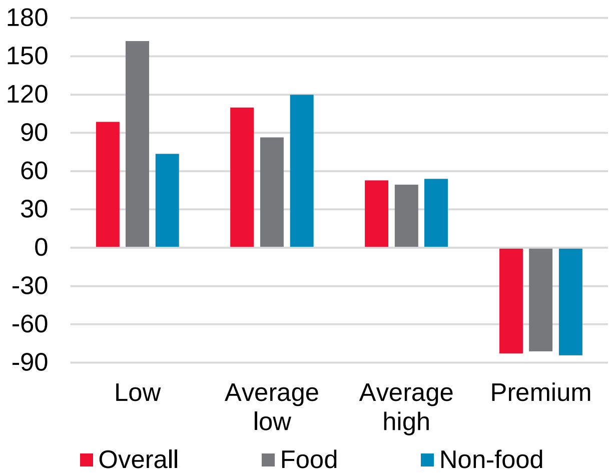


Sources: Aggregator site data, R&F Department estimates.

An important trend which has been gaining momentum for quite some time now, having won over more consumers in 2022 amid the expanding savings activity, is consumers' demand for bigger savings on purchases. This, in particular, helps buoyant expansion of next-door shops, discounters, and hard discounters.

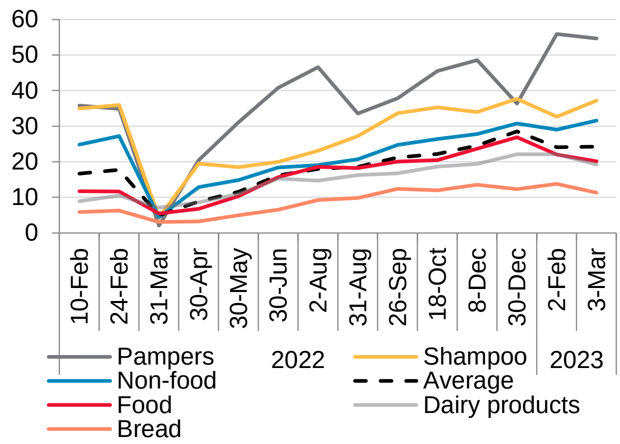
Our sample showed an overall product range expansion of 99% in low segment shops, with a 162% increase in food products. At the same time, supply contracted 83% in the premium segment (Figure 35). This trend was seen in all product categories.

Figure 35. Product mix change in shops of various segments, % 2023 vs 2022



Sources: Aggregator site data, R&F Department estimates.

Figure 36. Share of promo goods in the product mix by category, %



Sources: Aggregator site data, R&F Department estimates.

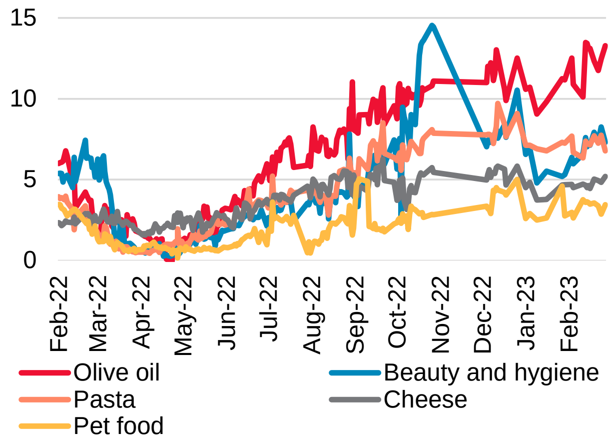
An essential part of everyday purchases, which is key to the attractiveness of purchases in a particular shop, is the availability of promo goods there. They acquire special importance in the periods when crises or other stressful developments occur.

Data studied showed a rise in the share of goods sold at a promotional price from 17% in late February 2022 to 24% at the start of March 2023 (Figure 36). The sharpest increase in the share of promotional goods was posted in non-food goods, which may have reflected the entry to the market of a relatively large number of new suppliers seeking to call attention to their products, including via discounts. The average discount size also rose relative to regular prices of items (Figure 37). Meanwhile, the need for promotional campaigns subsided amid feverish demand in March 2022, with the share of promo goods plummeting for a while.

One of the fastest growing segments in the FMCG market is private label goods. According to a NielsenIQ survey, private label goods became in 2022 one of retailers' most efficient tools of product mix management in terms of operating processes and logistics, which enabled supply to be partially replaced and contraction in the number of items partially made up for.

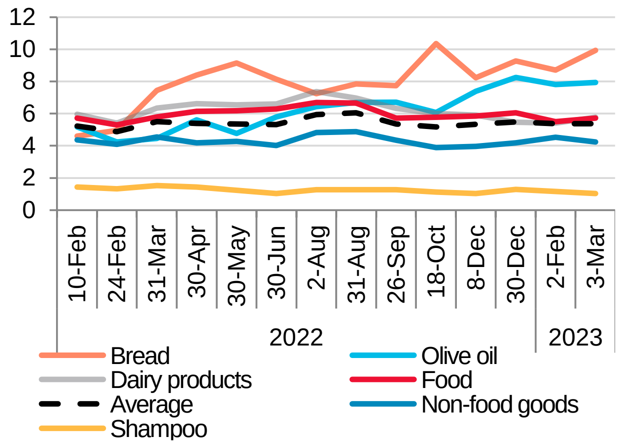
Our estimates suggest that the average share of private label goods in the FMCG product mix did not change much at the start of March 2023 versus late February 2022 5% for the overall and food segment product mix and 4% in the non-food segment. That said, the share of private label goods notably expanded for individual food products, for example, bread and olive oil (Figure 38). The difference between the prices of private label products and regular brands goods may have ramped up the share of ***private-label*** sales, with its share in the overall product mix generally unchanged. Private label prices were expectedly found to be lower than those of other brands, but their movements are generally similar. The gap between private label prices and those of other goods significantly varies across categories. It is notably wider in the non-food segment than in the food sector.

Figure 37. Average discount by category, %



Sources: Aggregator site data, R&F Department estimates.

Figure 38. Share of private label goods by category, %



Sources: Aggregator site data, R&F Department estimates.

Price movements in most of the categories under study are close to Rosstat data for comparable categories, with some differences in a number of cases, where price movements recorded by Rosstat are higher than those in our sample. This is apparently due to the specifics of recording data on the prices of promotional goods and private label products. Under [the Rosstat methodology of recording price data](), promotional price is only recorded if a promotional campaign lasts longer than a week, whereas a consumer buys goods at a promotional price regardless of the campaign duration. Meanwhile, overall, price movements in the part of Rosstat's product basket under study are close to data from the statistics authority.