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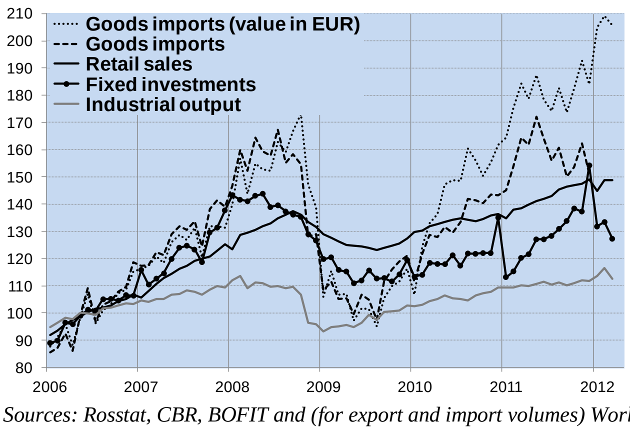
Russia

Weak first-quarter growth in demand. Not only was the volume of seasonally adjusted retail sales in March rather unchanged from February, but retail sales for the entire first quarter were not changed from 4Q2011. They were up, however, well over 7 % relative to 1Q2011. Growth in real household incomes was also stagnant in the first quarter. Fixed capital investment was notably down in March and for the first quarter overall, reflecting e.g. weakness in construction activity. Compared to 2011, investment in 1Q2012 was up over 5 %, however. Based on data on the volume of oil and gas exports, export volumes overall seem to have developed weakly in the first quarter (export volumes were up less than 0.5 % for all of 2011).

Weak demand has begun to affect supply, according to some observers because strong post-recession growth in inventories has subsided. The economy ministry reports seasonally adjusted GDP contracted in March and grew slowly in the first quarter overall. Industrial output dipped in March, even if first-quarter growth overall was still quite good. GDP and industrial output were up 4 % y-o-y in 1Q2012. Seasonally adjusted import growth was at a standstill in February-March, but import growth in the start of the year was so strong that if the level of import value reached in the first quarter is maintained during the rest of the year, import growth for the year overall would hit 15 %.

Several prominent forecasting agencies have revisited their forecasts from a few months ago and revised upwards their GDP growth projections for the year, mainly on the expectation of higher oil prices than assumed earlier. The forecasts at the moment see GDP growing 3.5–4.0 % in 2012. The economy ministry's latest forecast is 3.4 %.

Seasonally adjusted supply and demand indicators for Russian economy (volume, unless otherwise mentioned), 2006=100



Sources: Rosstat, CBR, BOFIT and (for export and import volumes) World Bank

Russian consumer demand also visible in Finland. The value of tax-free purchases by Russian shoppers in Finland was up 30 % y-o-y in the first three months of 2012. Russian overnight stays in Finnish accommodation establishments were also up about 20 % y-o-y for the January-February period.

Russian tourists today are by far the largest group of foreign visitors to Finland − and the importance of Russian tourists to the Finnish service sector increases every year. In 2011, Russians accounted for over 6 % of all overnight stays in Finnish accommodation establishments and over 1 % of Finnish retail sales. In 2010 (latest available figures), Russian tourists spent about €650 million on goods and services in Finland.

The impact of Russian tourists is concentrated on certain regions and activities. Early January is an important tourist season for Russians as it encompasses their New Year's holidays. Russian tourism is relatively most important for the region of Southern Karelia, which lies along the Russian border and close to St. Petersburg. Russians accounted for 40 % of overnight stays in accommodation establishments in 2011 in Southern Karelia, whereas in January that share rose to around two-thirds of total occupancies. In the town of Lappeenranta, for example, tax-free purchases by Russian tourists accounted for over 7 % of total retail sales in 2010. When purchases other than tax-free purchases are included, the total contribution of Russian shoppers was even more impressive.

Russian shoppers are particularly important for clothing and jewellery shops. About 4 % of net sales of such business were generated by Russian tax-free purchases in 2010.

The trend to expanding Russian tourism is likely to continue as forecasts see incomes in Russia on a rising path. Over the past decade, the volume of Russian trips abroad has nearly tripled. Despite that about 70 % of Russians (nearly 100 million people) have never travelled outside former states of the Soviet Union according to a recent survey by the Levada Center. Even today, less than 20 % of Russians carry passports that allow international travel.

In 2010, Finland beat out visa-free Turkey and Egypt as the top tourist destination for Russians outside the CIS. This especially reflects the huge number of short-time cross-border shopping expeditions to Finland.

Russian households spend an average of 3−4 % of their income on tourism and recreation. For 2011, this amounted to some €150–200 per person. With higher income level, the spending is higher for residents of Moscow (€300–400 last year) and St. Petersburg (€200–250). A recent survey by the Romir consulting group asked Russians to name three activities they associate with luxurious lifestyles: nearly a third mentioned travel to exotic islands and 14 % said sea cruises.

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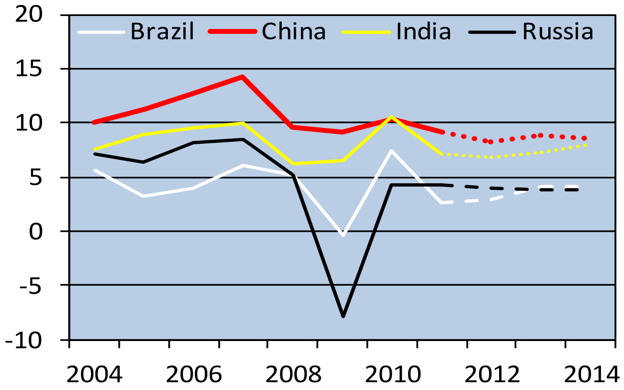
China

China set to be a global leader in economic growth in 2012 and 2013. The latest IMF World Economic Outlook (WEO) expects China to post annual GDP growth in the range of 8–9 % over the coming years. Higher growth is forecast only for countries recovering from wars in Africa and the Middle East, as well as Mongolia, where economic growth is being driven by a booming mining sector. In addition to China, the outlook is also bright for the other BRICs (Brazil, Russia and India). Weak recovery is expected for most advanced economies, and especially those strongly linked to the European debt crisis. The IMF noted that Europe's sovereign debt problems remain the biggest risk to the global recovery.

IMF baseline forecasts for BRIC GDP growth, %



Source: IMF

Like most major forecasting agencies, the IMF expects the Chinese economy to experience a soft landing rather than a severe decline in growth. As in many emerging economies, overheating poses a threat to the Chinese economy, but it has been subdued by Chinese officials through active use of fiscal and monetary measures. A sign that China's counter-cyclical measures are working was already evident this winter with the downturn in apartment prices in Chinese cities. Tracking inventory levels remains a serious challenge for forecasters, however, as Chinese statistics officials release very little data on inventories. China is known to maintain huge inventories of certain raw materials, including energy products, metals and foodstuffs, so changes in inventory levels translate directly to import figures and thus affect the headline figures for GDP growth. China's inventory levels also affect global commodity prices.

The IMF noted that the rapid reduction in China's current account surplus has come as a big surprise to most observers. China's current account surplus last year was just 2.8 % of GDP, down from levels well above 10 % as recently as 2007. Among the many factors contributing to a shrinking current account surplus has been the fall in demand for Chinese products in developed countries struggling with recession. Strong growth in China's own investment demand, rising domestic production costs and yuan appreciation against the dollar have all also contributed to a smaller current account surplus. The IMF expects China's current account surplus to increase modestly this year.

Incomes continued to rise sharply in the first quarter. China's National Bureau of Statistics reports incomes continued to rise rapidly in the first quarter of 2012. Monthly disposable income averages 2,460 yuan (about €300) for urban households and 850 yuan (about €100) for rural households. Real incomes were up over 10 % y-o-y. About two-thirds of household income in cities came from wages and slightly over 20 % from income transfers. In the countryside, over half of income was derived from farming activity and a third from wage incomes. Surveys suggest urbanites generally expect the robust wage rise to continue.

Chinese tax rates for small and mid-range incomes are quite low. Indeed, most wage-earners pay no income tax. Since September 2011, the first 3,500 yuan of the monthly wage has been exempt from tax and income from between 3,500–5,000 yuan taxed at just 3 %. Rates on monthly wage income above 5,000 yuan increase stepwise to a top rate of 45 % (monthly wage over 83,500 yuan). Taxation on income earned from agriculture was abolished in 2006.

The rapid rise in incomes has made China a stellar performer in eradicating global poverty. According to a new World Bank estimate, the number of Chinese living below the poverty level (income of less than $1.25 a day) fell from 832 million in 1981 at the start of economic reforms to 172 million people in 2008. In the same period, the number of people globally rising out of poverty was about the same number as in China. While the absolute number of people living in dire poverty has not fallen elsewhere, population growth has meant that the relative share of the population living in poverty in most other countries has shrunk. Despite the fall in poverty rates in China, income gains have not been shared equally. Income disparity in China continues to increase from year to year.

Rapid growth in incomes in China will fuel the restructuring of the economy. Increased purchasing power translates to higher consumption levels. The rapid rise in labour costs also reduces the competitive advantage of export industries relative to other countries. This especially affects labour-intensive branches such as the textile industry. At the same time, real yuan appreciation works parallel to wage growth by decreasing prices of imported foreign goods and raising Chinese purchasing power of foreign goods, while eroding the price competitiveness of domestic products against imports.

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