

## Russia

**Russia revises industrial output data.** Rosstat's 2015 figures for GDP production components were revised upwards earlier this winter, and the 2016 figures were less negative than expected. Both outcomes foreboded changes also in industrial output figures. The new figures show that total industrial output fell by less than 1 % in 2015, rather than by over 3 % in previous figures. The 2016 growth figure was corrected slightly upwards to 1.3 %. The new figures also show seasonally adjusted industrial output returned to growth in mid-2015 rather than in 2016.

The change in manufacturing output figures for 2015 was very large (from a decline of 5.4 % to a drop of just 1.3 %). 2016 growth was adjusted upwards to a half per cent. The output growth of mineral extraction industries, which includes the oil & gas sector, rose slightly to 0.7 % for 2015 and to 2.7 % for 2016. Revised data for the various industrial branches are yet to be published, as well as for the years before 2015.

Rosstat said the adjustments in its industrial figures reflect the adoption of new branch and product classifications (harmonised to EU classifications), improved product baskets, a broader application of price deflation according to UN recommendations, as well as more accurate production data on most important products. Going forward, changes in data for other sectors of the economy may also arise.

**Russian government sector still dealing with austerity.** Revenues to the federal budget performed weakly in 2016 also in areas other than taxes from oil & gas. Non-oil & gas revenues were up just 1.5 % in nominal ruble terms (without the sale of a stake in Rosneft). While transfers from the federal budget to the pension fund rose further, by over 8 %, the need for transfers was diminished by exceptionally small pension increases last year. The increase in spending from the federal budget and social funds was below the inflation rate.

### Government levels of Russia's consolidated budget, 2014–2016

		2014	2015	2016
		% of GDP		
<b>Revenues</b>	Federal	18.3	16.4	14.8
	incl. Rosneft share sale			15.7
	Regions and municipalities	11.2	11.2	11.6
	transfers from other budgets	2.1	1.9	1.8
	other revenues	9.1	9.2	9.7
	Municipalities	4.4	4.2	4.2
	Social funds	10.1	11.1	11–11.5
	transfers from other budgets	3.7	4.2	4.0
	other revenues	6.4	6.9	7–7.5
	<b>Expenditures</b>	Federal	18.7	18.8
transfers to other budgets		5.2	5.7	5.8
other expenditures		13.6	13.1	13.3
Regions and municipalities		11.8	11.4	11.6
Municipalities		4.5	4.3	4.3
Social funds		10.1	11.9	about 11.5

Source: Ministry of Finance.

Transfers from the federal budget to regional budgets continued to drop. In contrast, revenue growth at the regional level was rather good, especially revenues from excise taxes. Spending growth from regional and municipal budgets lagged inflation as was the case in a couple of previous years.

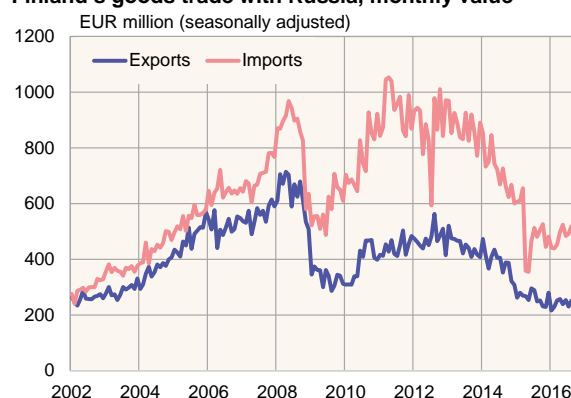
**Finnish exports to Russia finally on the rise.** After contracting for 14 consecutive quarters in annual terms, the value of goods exports rose 6 % y-o-y in 4Q16. Fastest growth was recorded for metals exports partly buoyed by higher prices, but exports of e.g. machinery & equipment and foodstuffs also rose. The recovery remains shaky, however, as the value of exports fell slightly again in December. Exports this year are expected to achieve more robust growth supported by a gradual recovery in Russian demand and stronger ruble. In the first part of the year exports could see even quite brisk growth relative to the low starting point, but later growth is constrained by Russia's weak growth trend.

Exports of travel services seem to have also revived late last year. After contracting for eight quarters in a row, Russian overnight stays in Finland rose by 7 % y-o-y in 4Q16, and were up by nearly 20 % y-o-y in December. As suggested by double-digit growth figures for border crossings and tax-free purchases in January, the recovery in Russian tourist traffic to Finland is likely to continue this year, but the levels of tourism are nowhere near the peak of earlier years.

The value of Finnish goods imports from Russia was up in 4Q16 by nearly 30 % y-o-y, lifted largely by higher oil prices. Oil accounts for the majority of Finnish imports from Russia. Imports of metals showed strong growth towards the end of last year, with import volume of nickel mattes rising many fold. Growth in sawn wood imports continued despite ruble appreciation, while raw timber imports fell.

For all of 2016, Finnish goods exports to Russia still shrank 6 % y-o-y to slightly under €3 billion. The last time exports were so low was in 2001. Finnish goods imports from Russia grew by 3 % to over €6 billion. 6 % of Finnish goods exports went to Russia and Russia provided 11 % of Finnish goods imports in 2016.

### Finland's goods trade with Russia, monthly value



Sources: Finnish Customs, BOFIT (seasonal adjustment).

## China

**Wage growth slows; Chinese wage levels already high among emerging economies.** The latest household survey of China's National Bureau of Statistics finds that wage growth in urban areas slowed to 7 % last year, down from 8 % in 2014 and 2015. The rise in rural wage levels also slowed, but was slightly faster than in cities. Based on China's earlier official wage figures, we estimate the average urban wage last year was about €750 a month. However, there are huge variations in wage levels across provinces and branches. For example, the average private sector wage in the advanced Jiangsu and Guangdong provinces is 50 % higher than in provinces such as Jilin and Heilongjiang. In recent years, the rise in private sector wages in poor provinces has been *slower* than in advanced provinces.

Information from Hay Group, a global management consultancy, also shows slowing wage growth similar to the NBS household survey. China's rapidly rising wages over many years have made it pricey by emerging economy standards. The average wage for Hay Group's customer base in China was higher than in Russia and already about a third of the average wage in the United States. Wage spreads are larger in China than in Western countries, especially between upper management and staff.

The rapid rise in labour costs has caused an ongoing shift of labour-intensive production away from China to other countries. In addition, Chinese firms are automating and China is already the world's largest market for industrial robots. China has moved to more sophisticated products and production. These trends seem destined to continue in coming years.

**China establishes itself as major arms exporter and importer.** A report published last month by the Stockholm International Peace Research Institute (SIPRI) finds that the volume of international arms trade in the five-year period 2012–2016 was 8 % higher than in the previous 2007–2011 period. The US share of global arms trade rose in the most recent five-year period to 33 %, while Russian fell slightly to 23 %. China's arms exports have soared, with the country consolidating its position as the world's third-largest supplier of arms with a 6 % share of the global arms trade. With a nearly 5 % share of arms imports, China is also the world's fourth-largest arms buyer even if the volume of imports has fallen. The world's largest arms buyers are India (13 %), Saudi Arabia (8 %) and the United Arab Emirates (5 %).

The volume of Chinese arms exports grew by 74 % from 2007–2011 to 2012–2016. Over a third of Chinese arms exports went to Pakistan, nearly a fifth to Bangladesh and 10 % to Myanmar. China's arms exports to Africa grew fastest, with the continent accounting for 22 % of China's total arms exports. China exported arms to 44 countries over the past five years. For the first time, its customer base included countries of the former Soviet Union.

Even with booming weapons production industries, China continues to import e.g. freight carriers, helicopters, ships, and engines for aircraft and other vehicles. Russia supplied 57 % of China's arms imports, Ukraine 16 % and France 15 %.

Russian arms exports rose 5 % in the research period. With its 38 % share, India was by far Russia's largest arms client. The next closest arms-buyers were Vietnam and China, each with 11 % shares. Russia exported weapons to 50 countries and the rebels in eastern Ukraine. 68 % of exports went to the Asia and Pacific region, 12 % to Africa (Algeria 10 %), the Middle East 8 % and Europe 6 %.

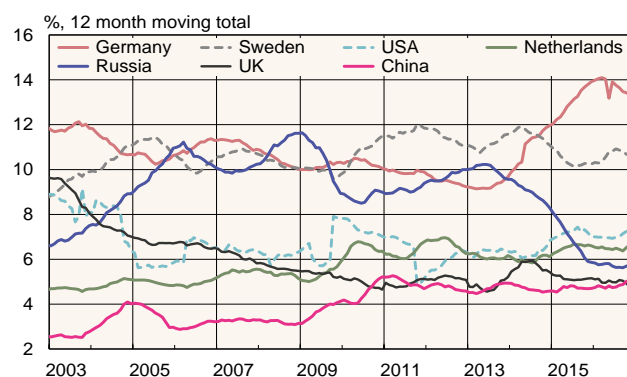
**Exports to China outperformed Finnish exports overall in 2016.** New figures from Finnish Customs show the value of Finland's goods exports to China rose by 5 % last year to €2.7 billion. Imports from China increased by 1 % to €4.1 billion. Finland's trade deficit with China shrank from 2015 to €1.4 billion.

China last year became Finland's sixth-largest export destination (5 % of total exports). Exports to Hong Kong last year were valued at €170 million, or 0.3 % of Finland's total exports. Exports to Taiwan were roughly of the same scale. China is Finland's fourth largest provider of imports (just over 7 % of Finnish imports).

Pulp represents a fifth of all Finnish exports to China, with pulp exports to China rising 13 % last year. The value and volume of exports of Finnish furs and pelts to China fell by half from their 2015 level. Furs and pelts represented 5 % of Finland's exports to China last year, down from 11 % in 2015. Nearly half of all Finnish fur exports went to China. Exports of machinery, equipment and devices increased by 8 %, representing 43 % of total value of Finnish exports to China. There were no changes in the structure of imports. Over half of Finland's imports from China were machinery, equipment and devices, and over 15 % clothing and footwear.

Statistics Finland figures for commercial lodging show that overnight stays of Chinese travellers in Finnish hotels & inns increased by 27 % last year, and for the first time exceeded the volume of overnight stays of Japanese travellers. Overall, overnight stays of foreign travellers grew by 5 %. Some 6 % of foreign visitors to Finland were from China.

Finland's top export destinations (share of total export value, %)



Source: Finnish Customs and BOFIT.