Weekly Review
21 • 24.5.2017

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Russia

Domestic demand in Russia recovers. Rosstat reports that the seasonally adjusted volume of retail sales increased slightly in April. Sales were the same as a year ago. Because the recovery was preceded by a 27-month slide in retail sales, the retail sales volume in April was still nearly 15 % less than in April 2014. Although the construction sector continued to struggle, first-quarter fixed investment was distinctly higher (2.3 % y-o-y) for the first time since Russia's recent recession began.

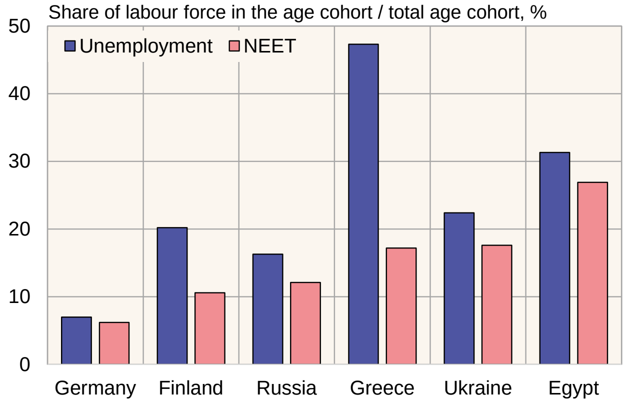
Rosstat noted that seasonally adjusted and workday-adjusted industrial output increased further in April, raising the total output increase for the January-April period to 0.7 % y-o-y. Mineral extraction remained the main driver of industrial growth, with output in the first four months of the year rising by nearly 2 % y-o-y. Natural gas production was up 9 % y-o-y. The increase in manufacturing output was more modest, even if the output was slightly up in the March-April period in on-year terms.

Growth in goods transport, already climbing in the first quarter, picked up steam in April. In the first four months of the year, the volume of goods transport was up 6.4 % y-o-y. Rail transport and energy pipeline transmission, which, due to the long haulage distances, generate an overwhelming part of transport volumes, have experienced strong growth.

Russian youth unemployment near European average. Russia last year had about a million unemployed persons between the ages of 15 and 24. The youth unemployment rate was 16 %, while the overall unemployment rate was below 6 %. Most young people do not participate in the labour force as they are full-time students, so the share of unemployed in the total 15–24 age cohort was about 6 %. A broader concept than unemployment, "not in education, employment or training," or NEET, comprises young people who do not study or work and thus face a higher risk of social exclusion. Russia had over 2 million NEET youth in 2015, which was about 12 % of the 15–24 age cohort. Slightly over half of unemployed young people were male, but most economically inactive NEET youth were female. The average youth unemployment rate in EU countries last year was 19 % and the share of NEET youth was 12 %.

A recent report from the Center for Strategic Research found that the share of NEET in Russia's youth has fallen notably over the past two decades, largely due to increased participation in education. With the rise in the general level of education, however, the share of more highly educated in unemployed and NEET youth has also grown. Graduates of poorer vocational training institutes and young people living in rural areas face a heightened risk of falling into the NEET category. The level of Russian vocational training has received criticism recently. For example, a recent survey of Russian industrial firms found that half of respondent firms mentioned that graduates from vocational institutes and colleges were poorly trained or completely lacking in practical skills needed in the workplace.

Youth unemployment rate (15–24 years) and NEET, 2015/2016

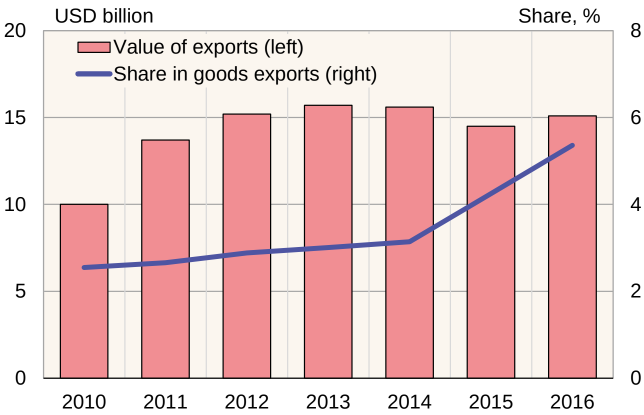


Source: ILO.

Arms sales still a minor share of Russian exports. President Putin recently put the value of Russian arms exports last year at just over $15 billion, only a few per cent more than in 2015. Arms exports in 2016 accounted for about 5 % of total goods exports. The value of new export orders received last year was some $9.5 billion, a considerable drop from previous years ($26 billion in 2015 and $14 billion in 2014). Russia had about $50 billion in arms exports on its order-book at the end of last year.

The Stockholm International Peace Research Institute (SIPRI) estimates that the volume of Russian arms exports increased by 16 % last year. Much of that growth came from exports to Algeria and Vietnam, which have become Russia's top arms exports markets after India. The volume of exports, however, was still well below the peak years of 2011 and 2012. For the past years, SIPRI has ranked Russia as the world's second largest arms exporter after the United States, with about a 20 % share.

Russian arms exports



Sources: SIPRI, Russian presidential administration.

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China

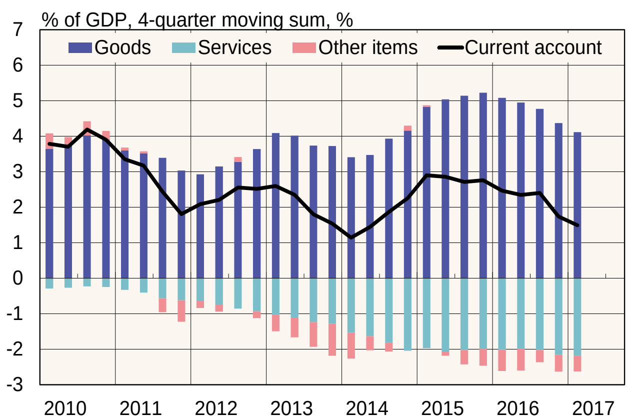
China's current account surplus dwindling. China's first-quarter current account surplus this year amounted to just $19 billion, down from $45 billion in 1Q16. The running four-quarter surplus at the end of 1Q17 declined to $170 billion, which corresponded to 1.5 % of GDP. Much of the drop in the current account surplus reflected a reduction in the size of the goods trade surplus, which itself was the result of higher growth in imports than exports.

The share of services imports has risen in this decade from 12 % to 20 % of China's current account expenditures. Most of this spending increase reflects the boom in Chinese tourism abroad. Chinese tourism spending for the twelve months ending in March exceeded $260 billion, which represented 57 % of all services imports. The growth in tourism spending, however, was down from very high double-digit growth just a couple years ago, rising just 5 % in the last 12 months. The slowdown in spending might partly reflect China's tighter currency controls, as some "tourism" spending is believed to be a cover for plain-vanilla capital exports.

China's earnings from services exports have represented less than 10 % of current account income throughout the current decade. A fifth of the services exports income comes from tourism. Earning from tourists visiting China fell slightly last twelve months ending in March to $44 billion.

While the headline figures for the capital account in the first quarter have yet to be released, tighter currency controls have stemmed capital outflows to such an extent that the current account surplus is sufficient to cover capital exports. Thus, there was almost no change in China's currency reserves. As of end-March, China's total currency reserves stood at just under $3.1 trillion. Based on the goods trade and currency reserve data, China's balance-of-payments situation in April was largely unchanged from the first quarter.

China's main current account components, % of GDP



Source: Macrobond

Restrictions on apartment deals in Chinese cities slowed sales growth in April. The rise in housing prices in China's large cities does not appear to have slowed significantly despite restrictions. This year, several dozen cities tightened rules, including limiting the number of apartments one person may own, longer resale times to prevent "flipping" and higher downpayment requirements. The National Bureau of Statistics reports that prices of existing apartments in 70 cities were up on average about 10 % y-o-y in April. Prices were lower on-year in just six cities. In some major metropolises, however, the rise in prices seems to be moderating. April prices were only up 5 % y-o-y in Shenzhen, compared to over 20 % in Beijing and Guangzhou.

Rising prices have boosted the value of apartment sales. In terms of floorspace, the restrictions appear to have been slowing the sales growth as the NBS reports that growth in apartment sales nationally slowed in April to 5 % y-o-y, down from around 30–40 % a year ago. Measured in terms of square metres of liveable floorspace, apartment building starts in the first four months of the year were up 18 % compared to the same period a year earlier. Sales of land use rights increased by 8 % in terms of surface area. The sale of land use rights fell during 2014–2016. The stock of apartments for sale on the market has been shrinking this year.

China's housing rental markets are fairly undeveloped and most of the population owns their own dwelling. Last week, the housing ministry released a draft of legislation concerning property sales and leasing that would improve tenant rights by encouraging longer rental periods, making it more difficult to raise rents during rental agreement period and requiring landlords to give three months notice before termination of the agreement. The proposal is open for comment.

Tighter regulation of online news providers in China. Newly announced regulations by China's Cyberspace Administration will reinforce the Communist Party's ability to police online news content. From the start of June, all producers and distributors of online news must have party-accredited editorial staff. The rules come into force at the same time as the new cybersecurity law.

The cybersecurity law has raised concern among foreign technology firms operating in China. The law mandates that foreign firms store certain data on servers in China, as well as get approval of their technology and permit system inspections by the authorities (BOFIT Weekly 2016/46). The EU and US Chambers of Commerce in China oppose the new law. In recent weeks, they submitted several requests that the government postpone the law's implementation.

The new cyber security law and the tighter controls on online news conflict with China's strategies for economic reform and opening the economy. Some observers say the media restrictions are part of party efforts to keep a lid on social unrest that could emerge as economic growth slows.

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