

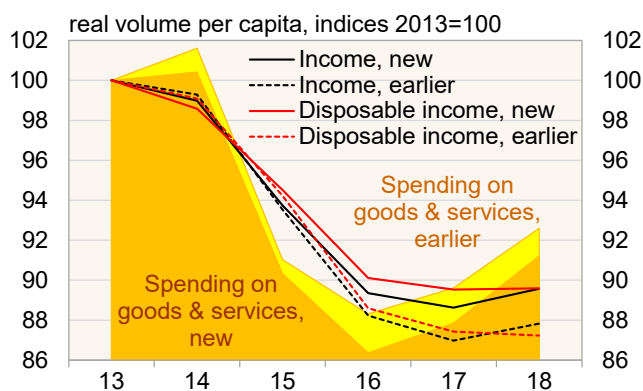
Russia

Statistical reforms provide improved picture of Russian household spending. New figures show that the large contraction in real household incomes of recent years was a little milder than reported earlier. They also show that the real trend in spending on goods and services improved slightly. Data on *nominal* spending on the purchases in 2013–2018, however, jumped 7 %, which may eventually lead to an upward revision in figures for the nominal levels of household consumption and GDP.

Rosstat has yet to release new figures on sub-categories of household spending on purchases based on its new statistical methodology. Changes made to the methodology suggest that the rise in the level of spending is due to more comprehensive inclusion of data on e.g. Russian spending on tourism abroad and online purchases from foreign websites.

In addition to the higher level of spending on purchases, as the level of other household expenses and payments also increased remarkably, the picture of household savings declined sharply. The other payments should now cover better the gratuitous money transfers that Russians send abroad.

Real per capita income and spending of Russian households, 2014–2018



Sources: Rosstat and BOFIT.

Chinese and Russian presidents extol good economic relations at St. Petersburg economic forum.

President Vladimir Putin voiced strong criticism of the latest US trade policy measures against China, specifically citing sanctions against telecom giant Huawei as an example of economic egoism. Putin warned that the breakdown of the global order based on free trade not only threatened growth of the global economy but geopolitical stability as well. In his turn at the podium, China's president Xi Jinping said Russia and China had reached consensus on some of the questions related to the harmonization between the Belt & Road Initiative and the Eurasian Economic Union.

The original mission of the St. Petersburg International Economic Forum was to attract Western investment to Russia, but since the war in Ukraine and annexation of Crimea,

most large firms in the West have stayed away from the event. China's unprecedented delegation this year of more than a thousand people was interpreted by Russian state media as a signal that the Russian economy is destined to be increasingly eastward-facing.

Critical assessments of the outlook for the Russian economy were offered at some side events. Alexei Kudrin, current chairman of the Accounts Chamber and former finance minister, said that Russian economic growth would remain below 2 % p.a. in coming years unless the country moves ahead with structural reforms, particularly development of an independent judiciary. Kudrin said that a survey of the Federal Security Service found that over 55 % of the firms do not trust the judiciary and 70 % consider doing business to be dangerous.

Kazakhstan's acting president Tokayev wins presidential election.

The tallied results from the presidential elections held last Sunday (June 9) show Kassym-Jomart Tokayev garnered 71 % of the vote. The election was moved up a year after Kazakhstan's leader, Nursultan Nazarbayev, announced in March his decision to step down from the post he had held for 30 years. Tokayev, who previously served as upper-house speaker, stepped in immediately three months ago as acting president until elections could be held.

The election result was expected as the 78-year-old Nazarbayev had already designated the 66-year-old Tokayev as his successor. Despite the changes at the top, Nazarbayev is expected to continue wielding power. Major policy shifts are not expected to be made in the near future. Observers from the Organisation for Security and Cooperation in Europe reported that the election failed to meet the criteria of free and fair election, specifically noting the limits put on standing for office, campaign assemblies and expressions of opinion.

Partially thanks to its natural resource endowments, Kazakhstan is a rather wealthy country in the Central Asian region. The World Bank reports that Kazakhstan's purchasing-power-adjusted GDP per capita in 2017 was 26,000 dollars. Thus measured, living standards are roughly on par with Russia and about half that of Germany. With a population of just under 20 million, Kazakhstan is a significant regional trading partner for Russia, which has a population of about 145 million. Along with Russia and Belarus, Kazakhstan was a founding member of the Eurasian Economic Union. While this union was in principle founded to advance the integration of member-state economies, there is also a geopolitical aspect to it.

Russia and Kazakhstan are both major global exporters of hydrocarbons and metals and significant importers of machinery and chemicals, but they also trade fairly extensively with each other. Russia last year accounted for 8 % of Kazakhstan's goods exports and 38 % of goods imports. From Russia's side, Kazakhstan accounts for 3 % of goods exports and 2 % of goods imports. For Russia as a whole Kazakhstan is thus only a minor trading partner, but for the Siberian regions close to the border Kazakhstan is an important market.

China

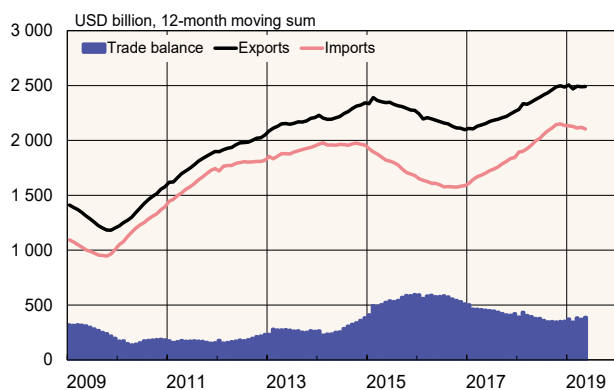
China's falling import figures signal weak domestic demand and shifts in global production chains. In dollar terms, the value of Chinese goods exports in May was up 1 % y-o-y. However, the value of imports was down by nearly 9 % y-o-y. For the January-May period, the level of exports remained roughly unchanged from the first five months of 2018, while imports contracted by nearly 4 %. China's goods trade surplus in the period hit 130 billion dollars, up from 94 billion dollars a year earlier.

With China's other major export markets showing declines or weakness in recent months, export growth is currently driven by gains in EU markets (up 6 % y-o-y). Exports to the US continued a string of down months, falling by 4 % y-o-y in May.

The weakening import trend suggests deeper problems with domestic demand. While the value of EU imports in May was still up by 2 % y-o-y, the value of imports from other major markets declined substantially. Imports from the US continued to slump as in previous months, dropping by about 25 % from a year ago. Imports from neighbouring Asian countries also continued to slide.

The complexity of the situation can be seen in the fact that exports and imports tied to international production chains have performed worse than the rest of China's foreign trade.

Chinese foreign trade (goods) in 2009–2019



Source: CEIC.

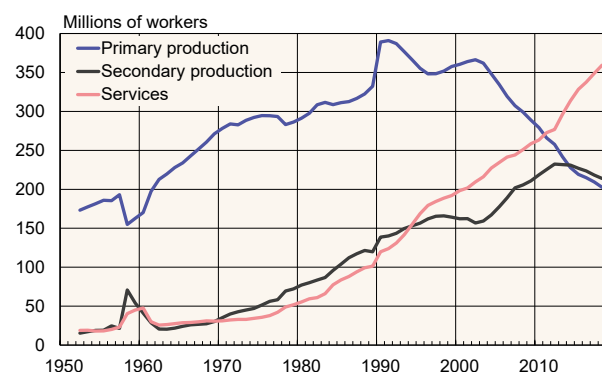
More Chinese working in service jobs. While official figures show that the structure of Chinese GDP has hardly budged in recent years towards a more consumption-driven economy (BOFIT Weekly 23/2019), the structural evolution of China's labour market, which consists of nearly 780 million people, shows a strong shift to the service sector.

China National Bureau of Statistics reports that the service sector had nearly 360 million workers in 2018, with the number of employees rising by over 10 million from 2017. The service sector has emerged this decade as the largest employer in the Chinese economy. Last year, 46 % of all workers were employed in service jobs.

The number of workers in primary production (mainly agriculture), has dropped precipitously since the turn of the millennium. China's accession to the WTO in 2001 strengthened its course to become the global hub of manufacturing and assembly, which in turn caused a massive influx of workers from the countryside to cities. Some 366 million people worked in the primary production sector in 2002, but that number declined to just 203 million by 2018. During the same period, the share of workers employed in primary production fell from 50 % to 26 %.

The number of workers employed in secondary production (industry and construction), has fallen since 2012. 214 million people last year worked in secondary production (28 % of the workforce). The decline partly reflects rising labour costs that have forced companies to automate or move labour-intensive production to cheaper countries.

Number of workers by sector (in millions)

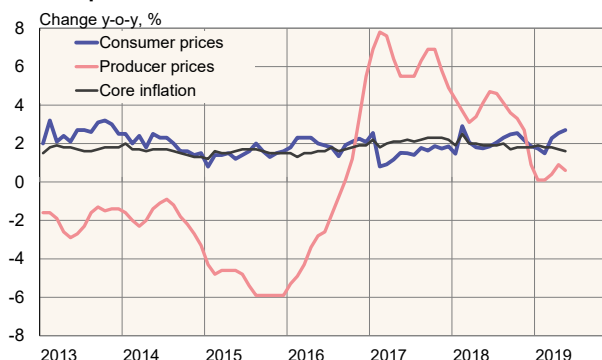


Sources: China National Bureau of Statistics, CEIC.

Chinese inflation accelerates slightly on higher food prices. The NBS reports May consumer prices were up 2.7 % y-o-y, slightly higher than the 2.5 % rise registered in April. The pick-up in inflation was mainly due to sharp increases in prices of fruit and pork products (the spread of African swine fever virus has caused pork prices to jump in China). Food prices overall were up 7.7 % last month.

Producer price inflation slowed to 0.6 %, which puts pressure on corporate earnings and profitability.

Chinese price trends



Source: Macrobond.