

Russia

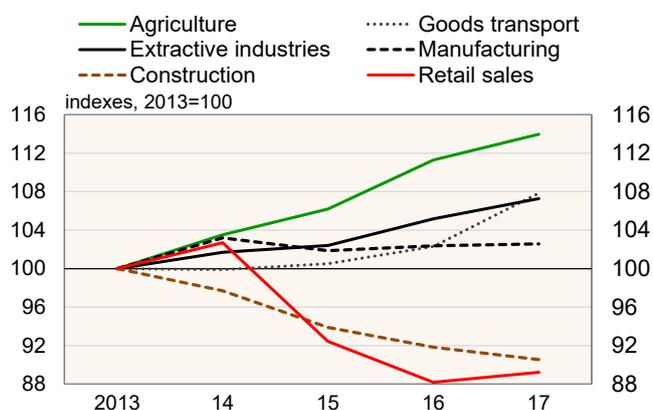
Primary production up in Russia; manufacturing hardly at all. At the end of last year, a nearly six-month slide in seasonally-adjusted industrial output stopped. For 2017 overall, industrial output was up 1 %. The score was dragged down especially by manufacturing, which, due to a weak late part of the year, saw growth fall to almost zero for the entire last year. Late in the year, the electricity and heating sector also had an effect as it contracted due to unusually warm weather. As a result, there was no growth in the sector's production last year. Production of extractive industries rose by 2 %. Growth was limited by a decrease in oil production in autumn to levels below highs reached a year earlier. The decrease reflects implementation of production limits agreed with OPEC countries and other oil-producing nations. The role of oil production was relatively small in causing the industry total's weak performance towards the end of the year.

Agricultural output increased by 2.4 % last year, a slower rise than in previous years. The growth in vegetation output subsided to slightly over 2 %. While the grain harvests hit a record, harvests of other crops were mostly smaller than in 2016. The growth in livestock production rose to nearly 3 %. The slow decline in construction activity continued throughout 2017 (down 1.4 % for the year). Growth in the volume of transported goods accelerated to over 5 % due to increased freight haulage by rail and pipeline transmission.

Retail sales recovered gradually last year, with the volume of sales up more than 1 % from 2016. The average real wage rose by 3.4 %, but other sources of household income showed weak development. Thus, real household incomes were still slightly lower than in 2016.

In recent years, primary production based on natural resources has grown – especially farm output but also mineral extraction. Goods transport has also increased. 2017 manufacturing output, in contrast, was slightly lower than in 2014. Construction and retail sales, which were hit hard by the recession, were 10 % smaller than in 2013.

Real-term trends in Russia's core economic sectors, 2014–17



Source: Rosstat.

US refrains from imposing new sanctions on Russia, but Power Machines goes on the sanctions list. Last week, the US added the names of 30 persons and firms to its SDN sanctions list imposed on Russia in response to the Ukraine conflict. New additions to the list included global power engineering company Power Machines, which is owned by business tycoon Alexei Mordashov. The sanctioning was related to supplying turbines to Crimea. Americans are generally forbidden from doing business with companies on the SDN sanctions list and the US assets of those on the list are frozen.

The mandated report on the Countering America's Adversaries Through Sanctions Act, or CAATSA, which was passed last summer, was presented to Congress on January 29. The public part lists 114 representatives of administration and state-owned firms as well as 96 oligarchs being part of the president's inner circle. The report's classified part should include an assessment of parastatal entities and the impacts of possible sanctions imposed on Russian government debt. No new sanctions are currently targeted at the listed persons and parastatal entities, unless they are already subject to earlier sanctions. US treasury secretary Steve Mnuchin says new measures are planned for the coming months, however.

Under CAATSA, the US could have imposed sanctions also on companies that work with the Russian defence contractors designated last autumn. According to the administration, sanctions are not considered necessary at the moment and the threat of sanctions is sufficient.

The possibility of new sanctions has given rise to worries in Russia and thinking about how to mitigate their impact. For example, an amnesty for those who repatriate assets hidden abroad, nondisclosure of information for companies working with public procurement and companies subject to sanctions as well as repurposing the failed Promsvyazbank to create bank to serve defence contractors have been proposed.

Sharp drop in births in Russia. There were fewer than 1.7 million live births in Russia last year, a drop of 200,000 births from 2016. Last time such a drop in births was seen in early 1990s after the collapse of the USSR. The drop was fairly consistent nationwide, with the number of births falling last year in all Russian regions except Chechnya.

Much of the drop reflects a long-term demographic trend with the number of women of childbearing age falling for over a decade and also the number of births for several years. Last year also the birth rate dropped, however, particularly sharply, possibly due e.g. to the weak economy. Real disposable household incomes have fallen for four years in a row.

Preliminary figures, however, show net migration caused Russia's total population to increase slightly also last year. Rosstat estimates that Russia's population at the start of this year was 146.9 million people. The figure includes nearly 2.4 million residents of Crimea, an area that Russia annexed in violation of international law. Under Rosstat's base scenario, the number of births will continue to decline until 2030 and natural population growth will remain negative.

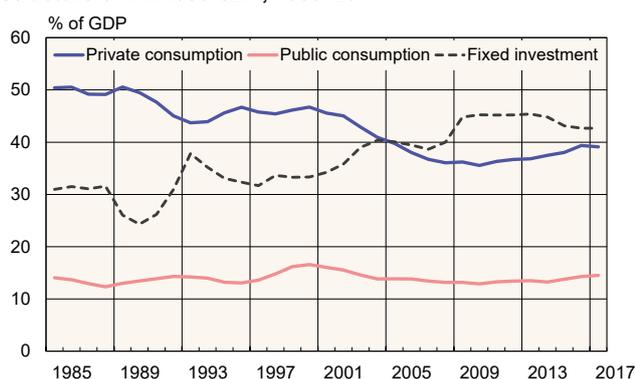
China

Did structural economic change in China come to a halt last year? Preliminary demand-side GDP figures show that private consumption accounted for 39 % of total demand last year, slightly less than in 2016. The share of public consumption, still low by international standards, rose slightly to almost 15 % of GDP. The share of investment remained at 43 % of GDP, so at least by official figures there was no progress in restructuring the economy last year. However, statistical deficiencies make it difficult to evaluate true trends.

The National Bureau of Statistics reports that over half of China's 6.9 % growth last year came from consumption growth. Investment demand growth slowed to account for less than a third of GDP growth. Net exports accounted for a small part of China's GDP (2 %), and its contribution to growth was 0.6 percentage points.

The service sector's share of GDP last year remained at the previous year's level (52 %), while industrial production accounted for a 40 % share. As recently as 2012, the sectors were equal in size but the subsequent rapid structural evolution slowed down last year. Service sector output (up 8 %) grew faster than industrial output (up 6 %). From the supply-side perspective, the service sector accounted for well over half of last year's economic growth. The contribution of industrial production to GDP growth was just over a third, a low level for China. Agricultural production generated 8 % of GDP last year but employed over a quarter of the Chinese workforce. The sector's impact on economic growth was marginal.

Structure of Chinese GDP, 1985–2017



Source: CEIC.

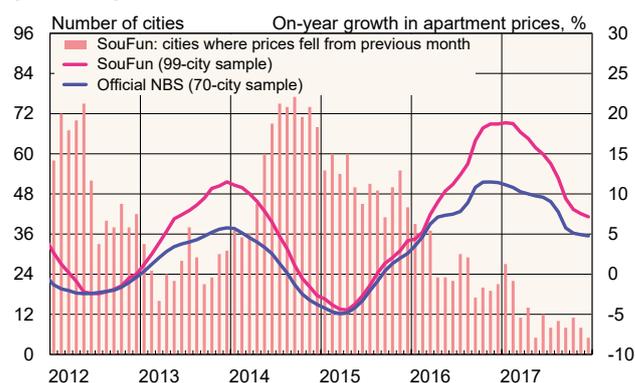
Rise in housing prices in China slowed last year. Housing market tracker SouFun reports that apartment prices generally rose in 2017, but with considerably slower pace than a year ago. SouFun's 99-city sample showed that the average price of a square metre of living space in December reached 14,000 yuan (\$2,400), rising 7 % y-o-y. The price of a square metre of apartment varied from 4,500 yuan (\$770) in Yingkou to 54,000 yuan (\$9,300) in Shenzhen. The rise in prices was more broad-based than earlier. In January 2017 prices were still falling in 27 cities, but in December

2017 only five cities experienced price drops. In Beijing, prices continued to fall slightly in December and price increases also in other large cities were generally modest.

Growth in apartment sales slowed towards the end of last year. The volume of apartment sales, measured in square metres, was up about 5 % y-o-y, down from over 20 % the previous year. The volume of completed housing last year, measured in liveable floorspace, was down 15 % y-o-y and the aggregate floorspace of unsold apartments was down 25 % y-o-y. On the other hand, purchases of land rights for construction in the first eleven months of the year were up by over 40 % y-o-y, while new construction starts were up by 8 %.

The central government has sought to rein in soaring prices, tightening conditions for housing loans and making apartment rental more appealing. Officials also want to boost production of rental housing in big cities and rural villages by e.g. allocating a portion of lots with building rights to rental housing and granting cheap credit to builders and renters.

Apartment price trends in Chinese cities



Sources: SouFun, NBS, Macrobond.

Yuan strongest against dollar since August 2015 mini-devaluation. The yuan strengthened by 3.5 % in January. At month's end, one dollar bought 6.29 yuan. Much of the recent trend reflects general dollar weakness. The yuan-euro exchange rate has been relatively stable over the past six months. One euro bought 7.83 yuan at the end of January.

Yuan rates vis-à-vis the dollar, euro and currency basket (NEER)



Sources: J.P. Morgan, Reuters.