Weekly Review
20 • 18.5.2018

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Russia

Price tags on Putin's new economic initiatives revealed. Prime minister Dmitri Medvedev's initial assessment of president Putin's May Decree is that implementation over the next six years will cost about 25 trillion rubles (€360 billion). The bulk of this spending is already incorporated into federal budget planning, but Medvedev estimated that supplemental spending of around 8 trillion rubles is still needed (a nearly 10 % increase in the estimated total federal budget expenditures over the next six years). In other words, extra annual spending would average 1.3 trillion rubles (an increase of €19 billion or about 1 % of GDP).

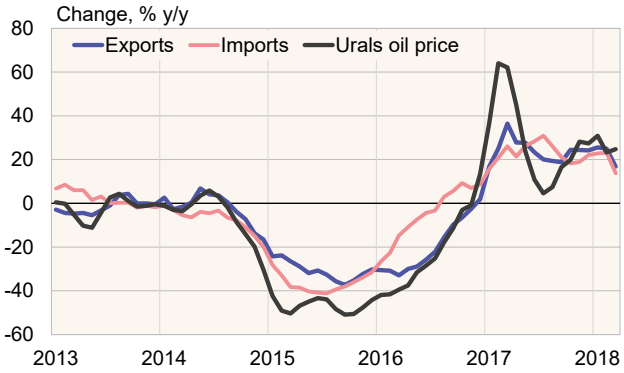
The daily business paper *Kommersant* reports that the finance and economy ministries have sketched the costs for the 13 national projects to be created for implementing the May Decree. The largest expenditures would go to roads (an average of 1.4 trillion rubles a year), demography (600 billion rubles), infrastructure (300 billion rubles) and digital economy (220 billion rubles). The biggest annual spending increases are planned for healthcare (220 billion rubles a year), roads (210 billion) and digitalisation (170 billion). The May Decree did not mention defence, but spending under the recently accepted 2018–2027 armaments programme is estimated at 19 trillion rubles, or an average of 1.9 trillion rubles a year.

It is still unclear where the money to fund supplemental spending on national projects will come from. In principle, money should be raised by increasing either non-oil revenues or cutting spending in other budget categories, since under the new budget rule all revenues from oil price exceeding the target of just over $40 a barrel should be set aside as savings. Additional revenues are hoped to be raised e.g. through higher economic growth or improved tax collection. Raising the retirement age has been suggested as one way to save in spending.

Rapid growth in Russian goods trade continued in first quarter. The value of goods exports in the first quarter slightly exceeded $100 billion, an increase of over 20 % y-o-y. Rising oil prices boosted exports, with the average price of Urals crude up about 25 % y-o-y. On the other hand, the total volume of exports of crude oil and oil products contracted by about 1 % y-o-y. In contrast, many other major goods saw brisk increases in export volumes, including natural gas, most metals and wheat. About half of goods exports went to EU countries, more than a fifth to Asia and about 9 % to countries in the Eurasian economic union. China accounted for 12 % of Russian exports, making it the top individual export market.

The value of goods imports in January-March was nearly $60 billion, an increase of about 20 % y-o-y. Highest growth among largest goods categories was recorded for imports of metals and machinery, equipment & transport vehicles. Import growth was supported mainly by higher import volumes and e.g. the number of car imports rose even by 50 % y-o-y. Food imports also rose briskly despite Russian import bans and efforts to encourage import substitution. In the category of dairy products, in particular, domestic producers have been unable to provide adequate supply. As a result, dairy import volumes climbed by 20 %. Nearly 40 % of Russian imports came from EU countries, over a third from Asia (from China 22 %) and 8 % from the Eurasian economic union.

Russian goods trade and the oil price

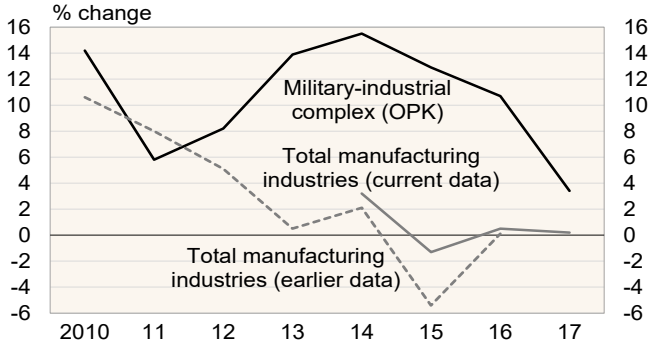


Sources: Central Bank of Russia, Reuters.

Growth of Russia's defence industry slowed last year. Production of the military-industrial complex (*oboronno-promyshennyi kompleks* or OPK) increased last year by over 3 %, reaching a record level after growing at 10–15 % a year in the four previous years. Over 80 % of production in OPK was production for defence, about the same share as in 2016. The share rose to this height in the boom of OPK defence production during 2012–2016. Civil production, however, is planned to gradually begin to account for a larger share of OPK after 2020 and rise to around 30 % by 2025.

OPK is part of Russia's manufacturing industries whose production overall remained virtually flat over the past three years. Manufacturing overall rose by just 0.2 % last year. Taking into account the rise of defence production in OPK, civil production in manufacturing industries as a whole has clearly declined. Depending on the way of calculation, OPK employs 15–20 % of Russia's manufacturing workers.

Real growth in production of Russian military-industrial complex and total manufacturing output



Sources: Industry ministry, Federalnyi spravochnik and Rosstat.

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China

Moderate slowdown in China's economic growth continues. Private consumption has sustained China's growth in recent years. Retail sales, a common measure of private consumption, slowed in April slightly in real terms to just under 8 %. Growth in fixed asset investment (FAI) has also been slowing for a while. Nominal FAI growth in April slowed to just 6 % y-o-y. Even with a moderate inflation estimate of investments, FAI real growth is assumed to be close to zero. Growth in property sales have also slowed this year. In terms of floor space, sales of residential and commercial properties have fallen from last year.

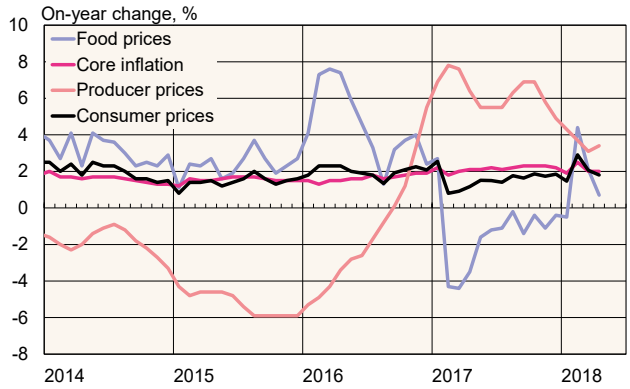
Industrial output growth accelerated slightly to 7 % y-o-y in April. Some observers see the pick-up as temporary, however, as the spurt includes the March lifting of winter restrictions on atmospheric emissions and the subsequent increase in heavy industry activity.

Imports grew faster than exports again in April. In the first four months of the year, the dollar value of imports rose by 20 %, while the value of exports was up by 14 % y-o-y. During the same period, the yuan appreciated over 8 % against the dollar. This resulted in a more modest growth in foreign trade when measured in yuan (exports grew by 6 % and imports by 12 %).

The value of China's foreign currency reserves fell in April by USD 18 billion to USD 3.125 trillion, partly due to exchange rate movements.

Chinese inflation remained modest in March and April. 12-month consumer price inflation was 2.1 % in March and 1.8 % in April. Core inflation, which excludes food and energy prices, remained at 2 %. Prices for services rose by 2.1 % y-o-y in April, clearly exceeding the rise in goods prices (1.3 % y-o-y). Healthcare-related services saw the fastest rise in prices. Inflation overall slowed a bit on low food price inflation (0.7 %), mainly a reflection of a large drop in pork prices (down 16.1 %). April producer price inflation was 3.4 %.

Price trends in China, 12-month percentage change



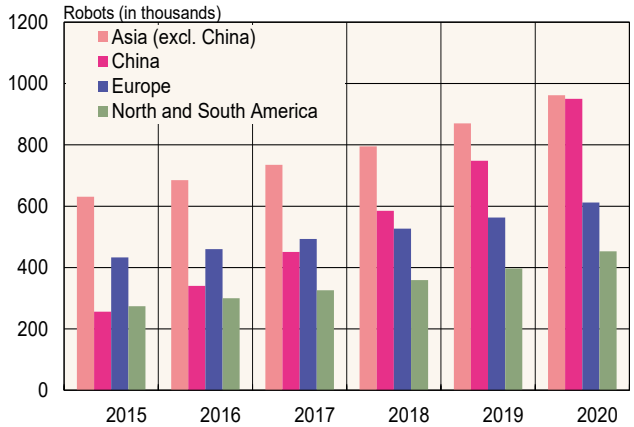
Source: Macrobond.

Robotisation of China zooms along. China has been the world's largest market for industrial robots since 2013, and accounted for 30 % of global industrial robot sales in 2016. The International Federation of Robotics (IFR) reports that China's share rises further in a couple of years to around 40 %. Robot density in China's industrial sector in 2016 (68 robots per 10,000 employees) nearly tripled in a few years' time to approach the global average of 74. The highest robot density in the world was in South Korea (631), while Russia, the Philippines and India (3 each) had the lowest robot densities. In 2016, a total of 87,000 new industrial robots were purchased in China, or more than double the number purchased in South Korea or Japan, the next largest markets. The annual number of units sold in China approaches the combined sales volume for North America, South America and Europe (97,300).

In 2016, over a million industrial robots were in use in Asia, with about a third located in China. The total number of industrial robots that year was around 460,000 in Europe and about 300,000 in North and South America. The number of industrial robots in China is expected to reach 1 million units within the next two years, when 2 million industrial robots are expected to be in use in Asia.

With over 30,000 units purchased in 2016, relatively more "service" robots are sold in North and South America than elsewhere. That same year, about 16,000 service robots were sold in Europe and 11,000 in Asia. Most service robots used in businesses are involved with logistics, national defence, hospitals or agriculture. Growth in the use of service robots by firms is expected to grow at 20–25 % a year in coming years. Private household robots are also included in the service robot category. Nearly 3 million domestic units were sold in Asia and the Americas in 2016, while sales in Europe were less than 1 million. Europe led in the number of service robot manufacturers (293), however, followed by North America (242) and Asia (134).

Estimated numbers of industrial robots by region, 2015–2020



Source: IFR World Robotics 2017.

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