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The Central Bank of the Russian Federation



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Economy

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Economy: facts, assessments and comments (November 2018)

In November 2018, the economy remained patchy. Investment activity was moderate, consumer demand demonstrated growth, which was in part driven by the slated VAT increase. The acceleration in itself was most likely of transitory nature. Industrial output growth was fuelled by external demand and weather effect. The forecast 2018 GDP growth rate was broadly unchanged at 1.5–2.0%.

Economy in November 2018 (year-on-year growth, %, unless indicated otherwise)

| | 2017 | October 2018 | 2018 Q3 | November 2018 |
|--|------|--------------|-----------|---------------|
| Output of goods and services by key industry | 2.4 | 3.5 | 1.5 | ... |
| Industrial output | 2.1 | 3.7 | 2.9 | 2.4 |
| Agricultural output | 2.5 | 11.9 | -6.1 | -3.9 |
| Construction | -1.4 | 2.9 | -0.4 | 4.3 |
| Freight turnover | 5.5 | 1.5 | 2.9 | 2.4 |
| Retail trade turnover | 1.3 | 2.0 | 2.6 | 3.0 |
| Nominal wage | 6.7 | 8.9 | 9.5 | 8.6 |
| Real wage | 2.9 | 5.2 | 6.3 | 4.6 |
| Unemployment rate* / seasonally adjusted** (%) | 5.2 | 4.7 / 4.8 | 4.6 / 4.8 | 4.8 / 4.8 |

* As % of labour force.

** Bank of Russia estimate.

Source: Rosstat.

Production activity

Annual growth in industrial production dropped to 2.4% in November 2018 (to 3.7% in October). These dynamics were shaped by the calendar factor, making a zero contribution in November after a 0.6 pp contribution in October.

According to various estimates, the month-on-month industrial output (adjusted for seasonality and calendar effects) was close to previous month readings.

Seasonally adjusted mining and quarrying industry continued to grow both year on year and month on month, mainly due to the output in the production of metal ores and other minerals. However, oil production contracted following the high growth rates of several past months. Weak exports amid considerable gas inventories accumulated in European storage facilities drew gas production further down. Overall, the estimated contribution of growth in mining and quarrying to the monthly growth of seasonally adjusted industrial production came in at 0.2 pp in November.

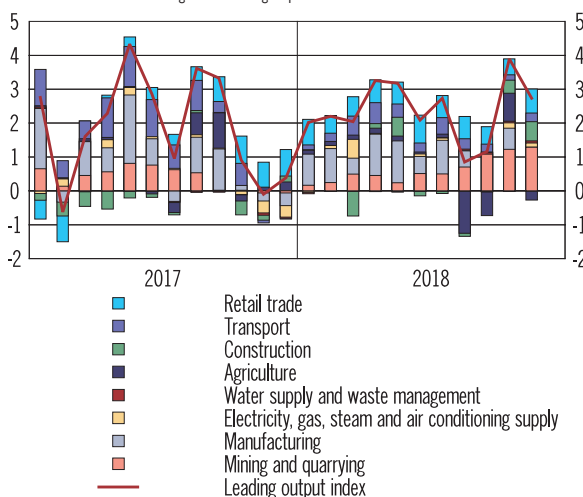
Cold weather in November supported industrial output: the contribution to its monthly dynamics from electricity, gas and steam supply, and air conditioning was estimated at 0.3 pp.

November saw a further month-on-month decline (seasonally adjusted) of output volumes in

Chart 1

Leading indicator of GDP dynamics slowed down

Contribution as % to the annual growth of leading output indicator



Sources: Rosstat, Bank of Russia calculations.

manufacturing due to the drop in the output across several subsectors, such as metallurgy and mechanical engineering. That being said, certain manufacturing enterprises preserved positive trends observed during several past months. Compared to the previous month, output growth continued in wood processing and pulp and paper production; it was underpinned by stable external demand and high price competitiveness of domestic products. The output of food products continued to expand in part due to meat production.

November survey results¹ demonstrate better demand estimates, growth in industrial production capacity utilisation in mining and quarrying and manufacturing.

This suggests that assumptions emerge for the industrial transitioning to a moderate growth in the coming months.

Investment activity

In November 2018, the overall investment activity was muted with its certain indicators producing mixed signals. On the one hand, the output of engineering products continued to decline month on month, seasonally adjusted. On the other hand, recovery in construction built up momentum, thereby supporting the output of construction materials. Overall, the estimated annual growth in fixed capital investment is expected to be negative in the fourth quarter of 2018.

Consumer demand

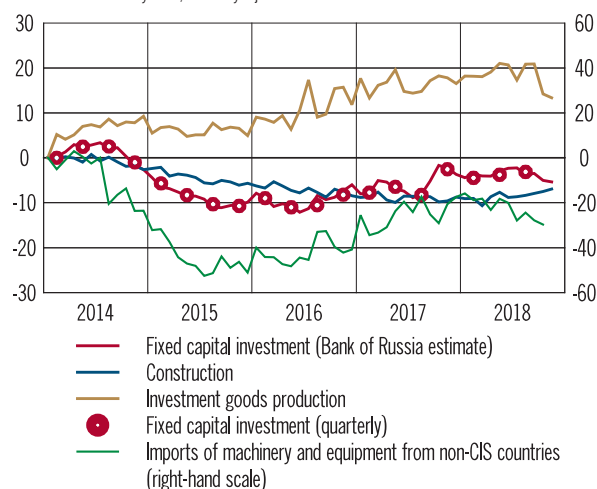
In contrast, consumer demand expanded in November 2018. Growth in retail trade turnover accelerated both year on year and month on month, seasonally adjusted. This was assisted by the ongoing trend towards increase in household lending and by a certain reduction in the propensity

¹ PMI index, Rosstat surveys.

Investment demand indicators were mixed in November

Chart 2

Growth as % on January 2014, seasonally adjusted



Sources: Rosstat, FCS, Bank of Russia calculations.

to save. Growth in demand could be in part driven by the expected surge in inflation in early 2019 on the back of the VAT rate hike. All that underpinned a significant growth in sales volumes during the traditional Black Friday² as compared with the previous year. Overall, November saw continued growth in demand for passenger cars and durable goods. Growth in the sales of television sets picked up considerably,³ being related to the expected VAT hike.

GDP: the third quarter and forecast for 2018

According to Rosstat's revised estimate, annual GDP growth was 1.5% in the third quarter. Given the current macroeconomic dynamics, the 2018 GDP forecast remains unchanged at 1.5–2%.⁴

² According to various research (GfK, Infoline-Analytics), the sales grew by 1.3–2 times.

³ According to a research by ATOL company.

⁴ Monetary Policy Report, release No. 4 (24), December 2018.

Cut-off date – 18 December 2018.

A soft copy of the information and analytical material is published on the Bank of Russia website (<http://www.cbr.ru/DKP/>).

Please send your comments and suggestions to svc_analysis@cbr.ru.