



Bank of Russia



# ECONOMY

No. 4 (40) • April 2019

Information and analytical commentary

5 June 2019

## Economy: facts, assessments and comments (April 2019)

In the first quarter of 2019, annual GDP growth totalled 0.5%. The Bank of Russia estimates that this GDP growth slowdown will be temporary. The dynamics of key economic parameters in April 2019 may indicate that business activity might pick up pace in the second quarter. Annual industrial production growth came in highest in the last two years with output increasing over a wide range of production sectors. Wages continued to rise and unemployment rate remained at the minimum level. In these conditions, the Bank of Russia expects that in the second quarter of 2019 GDP growth rate will be higher.

### CORE ECONOMIC INDICATORS

Table 1

(year-on-year growth, %, unless indicated otherwise)

	2018	February 2019	March 2019	2019 Q1	April 2019
Output of goods and services by key industry	3.1	2.2	-0.1	0.7	...
Industrial output	2.9	4.1	1.2	2.1	4.6
Agricultural output	-0.6	1.0	1.5	1.1	1.4
Construction	5.3	0.3	0.2	0.2	0.0
Freight turnover	2.8	1.9	2.6	2.3	2.3
Retail trade turnover	2.8	2.0	1.6	1.8	1.2
Unemployment rate / seasonally adjusted* (% of labour force)	4.8	4.9 / 4.6	4.7 / 4.6	4.8 / 4.5	4.7 / 4.6
Nominal wage	9.9	5.2	7.7	6.5	6.9
Real wage	6.8	0.0	2.3	1.3	1.6
Household real disposable money income	0.1	-	-	-2.3	-

\* Bank of Russia estimate.

Source: Rosstat.

## GDP

According to Rosstat's preliminary estimates, in the first quarter of 2019, annual GDP growth totalled 0.5% (2.7% in 2018 Q4) below the Bank of Russia's forecast range<sup>1</sup> (1.0–1.5%; Chart 1).

Rosstat may adjust its GDP growth rate estimate for the first quarter of 2019. Detailed analysis of reasons behind the economic growth slowdown will be based on complete production and GDP utilisation statistics<sup>2</sup>.

According to the existing estimates, the weakening of consumer and investment activity was caused by the VAT rate hike, effective from 1 January 2019, and related temporary acceleration in price growth rates.

Economic activity was also contained by weak external demand for Russian products and services amid global economy's slowdown and restrictions imposed on oil production by the OPEC+ agreements.

Furthermore, the adjustment of inventories could also significantly impact GDP growth in the first quarter of 2019. After an upturn in Q4, according to the estimates, they returned to the levels observed in the second and third quarters of 2018. The accelerated year-end increase in inventories could be related to the forthcoming VAT hike (Chart 2). Notably, due to the specifics of statistical accounting, the official estimate of inventories is quite rough and, potentially, can be significantly reviewed.

The base effect also contributed to GDP growth slowdown: in the first quarter of 2018, annual GDP growth accelerated to 1.9% from 0.3% in the previous quarter.

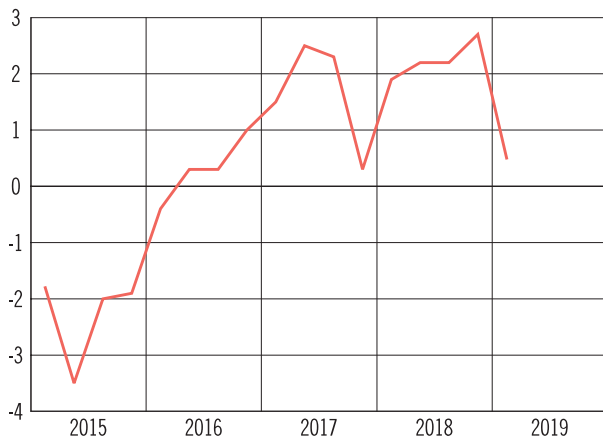
<sup>1</sup> The estimate was published in information and analytical commentary *Economy* (No. 1–3, 2019).

<sup>2</sup> Production and GDP utilisation statistics will be published on 18–19 June and 1–2 July 2019 respectively.

## GDP

Chart 1

As % on corresponding period of previous year

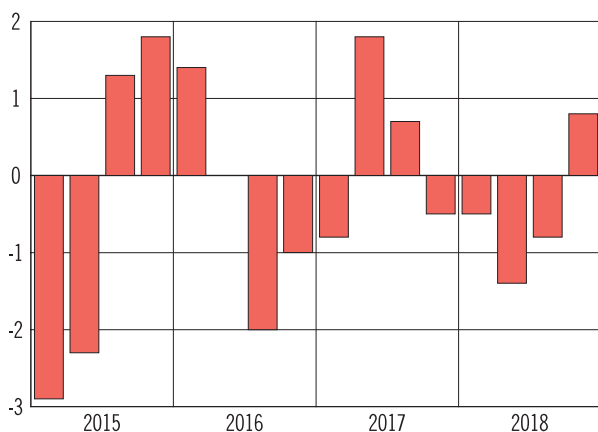


Source: Rosstat.

## CHANGES IN INVENTORIES

Chart 2

Contribution to annual GDP growth, pp

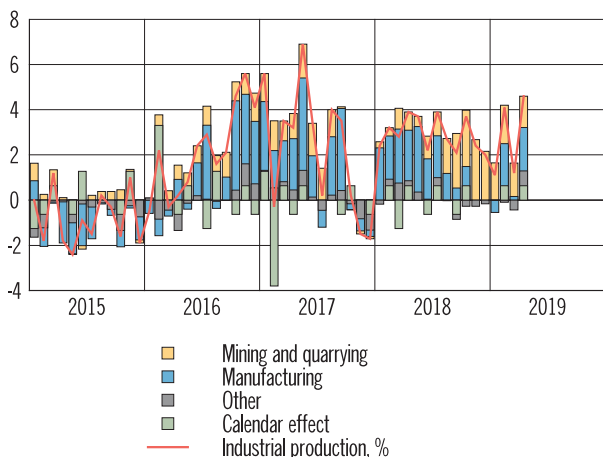


Sources: Rosstat, Bank of Russia calculations.

## INDUSTRIAL PRODUCTION

Chart 3

Contribution to annual growth, pp



Sources: Rosstat, Bank of Russia calculations.

## Production activity

In April 2019, annual industrial production growth rate accelerated to 4.6%, which is the highest level over the past two years (1.2% in March). This increase was in part caused by the calendar effect (in April 2019, there was one extra working day), which, according to the estimates, contributed 0.6 pp to annual output growth (Chart 3). Month-on-month, seasonally adjusted (hereinafter, SA) industrial output rose with production growth observed across a wide range of product groups.

**Raw material production.** The mining and quarrying sector saw a slight increase in output (SA) in April 2019 mainly due to a significant growth in marble and other limestone production. This may have been associated with renovation works conducted in the country's major cities. Natural gas and coal output declined in April after a surge the month before. Oil production continued to decline as caps were preserved under the OPEC+ deal.

**Intermediate goods production** recovered in April 2019 (MoM, SA) after a notable drop in March. Among other things, a decline in oil products output observed in March was offset. A rise in output was registered in rubber and plastics, in the woodworking and chemical industries. Metallurgy was one of the exceptions. The output in this sector failed to recover after a drop in the previous month due to the declining external demand.

**Investment goods production** slightly decreased month-on-month (SA, Chart 4) due to the drop in the output of engineering products characterised by high volatility. At the same time, construction material production kept rising, which, together with the increase in marble and limestone output, may indicate accelerating construction activity. However, construction work volume failed to pick up pace in April having remained at the prior months' level (SA, see 'Investment activity' subsection).

**Consumer goods production.** Consumer goods production increased in April 2019 (MoM, SA) mainly due to higher output of food products, including meat and dairy products. This took place due to imports substitution on the back

of existing restrictions and accelerating growth of global prices related, among other things, to unfavourable epizootic developments in certain countries. Growth of output of consumer non-food goods continued, including durable products, such as cars. This may indicate that producers expect recovery in consumer demand in the months to come.

**Business survey.** Survey data show general improvement in producers' sentiment in April 2019. At the same time, estimates of domestic demand for manufacturing companies' products vary. For example, Markit PMI research<sup>3</sup> and Bank of Russia's corporate monitoring indicated expansion in domestic demand (Chart 5). However, according to Rosstat, it was insufficient domestic demand that significantly limited production.

**Transport.** Expanding production activity led to both YoY and MoM (SA) increase in freight turnover in April 2019, driven mainly by motor transportation. At the same time, pipeline transportation fell in April due to a temporary decline in pipeline exports of oil products for technical reasons (Chart 6).

## Investment activity

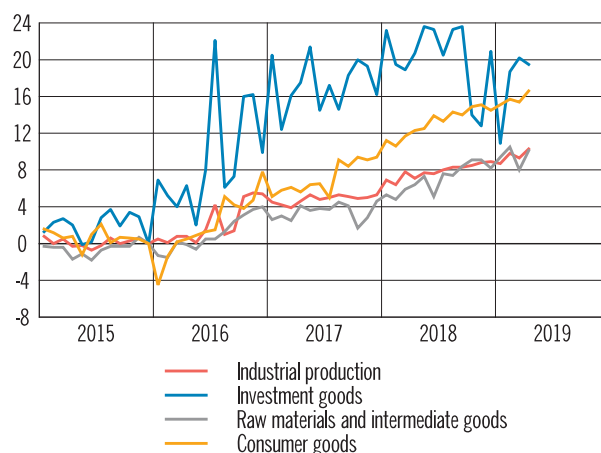
In the first quarter of 2019, annual growth rate of fixed capital investment slowed down to 0.5% from 2.9% in the previous month (Chart 7). Fixed capital investments (SA) remained near the seasonally adjusted 2018 Q4 level. According to estimates, investment activity was still, as in the end of the previous year, contained by general macroeconomic uncertainty and lower amount of public orders. Moreover, in the first quarter of 2019, the growth of infrastructure investment that significantly contributed to the total growth of fixed investment supposedly shrank.<sup>4</sup>

In April 2019, annual growth in imports of engineering products was 4.7%, which is highest since June 2018 (Chart 7). This was helped by ruble appreciation observed since the beginning of the year. However, the volume of construction

### INDUSTRIAL PRODUCTION BY PRODUCT GROUP

Chart 4

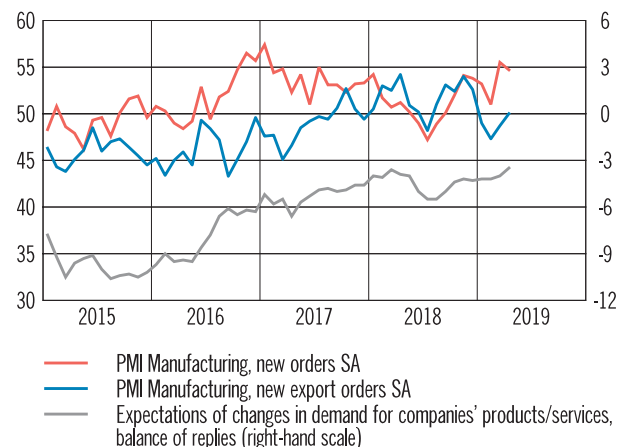
Growth on December 2015, % SA



Sources: Rosstat, Bank of Russia calculations.

### COMPANIES' ESTIMATES OF DEMAND FOR THEIR PRODUCTS

Chart 5

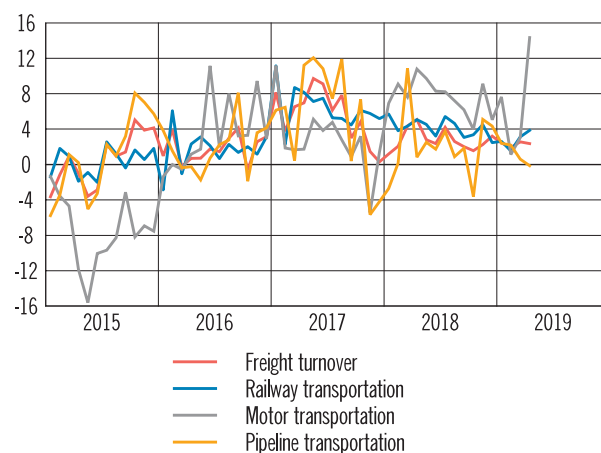


Sources: IHS Markit, monitoring of enterprises by the Bank of Russia.

### FREIGHT TURNOVER

Chart 6

Percent change on corresponding month of previous year



Source: Rosstat.

<sup>3</sup> Purchasing Managers' Index. For more details see: [www.markiteconomics.com/public](http://www.markiteconomics.com/public).

<sup>4</sup> See *Monetary Policy Report, No. 1 (25), March 2019* (hereinafter, MPR 1/19).

## INVESTMENT ACTIVITY INDICATORS

Chart 7

Percent change on corresponding period of previous year

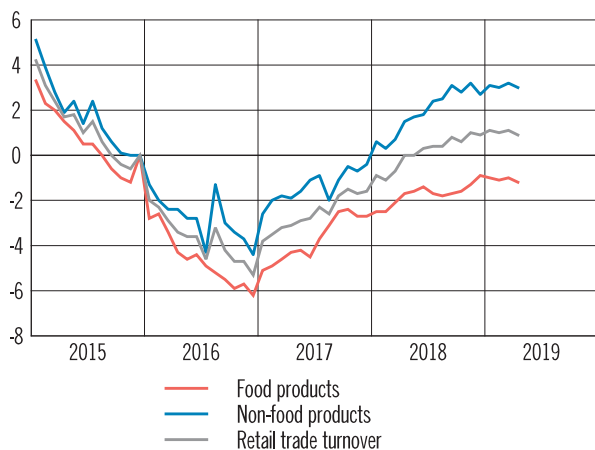


Sources: Rosstat, FCS, Bank of Russia calculations.

## RETAIL TRADE TURNOVER

Chart 8

Growth on December 2015, % SA



Sources: Rosstat, Bank of Russia calculations.

works remained at the prior month's level (SA) amid mixed dynamics of output of various groups of investment goods (see 'Production activity' subsection). This suggests that it is too early to speak about a confident growth in investment activity.

## Consumer activity

In April 2019, consumer demand remained contained. Retail trade turnover (SA) stayed close to late 2018 – early 2019 levels (Chart 8). Its annual growth rate dropped to 1.2% in April 2019, which is the lowest figure since September 2017, coming in below Bank of Russia's expectations.<sup>5</sup> Both food and non-food products sales growth slowed down.

Demand expansion was limited by falling real disposable household income<sup>6</sup> (see 'Labour market' subsection). At the same time, according to the estimates, its negative impact on demand was not offset by growing consumer lending. Consumer demand stagnation also reflects the impact of temporary acceleration in price growth after the VAT hike. As the influence of this fact has largely faded away,<sup>7</sup> it is expected that retail trade turnover will start growing in the second quarter of 2019, QoQ (SA). According to the Bank of Russia's estimate, the annual indicator will stand at 1.5–2% in the second quarter.

## Labour market

In April 2019, unemployment remained at its all-time low level of 4.6% (SA, Chart 9). At the same time, considering the forecast demographic trends, 2019 may see unemployment slightly decrease further.

Preliminary estimates suggest that in April 2019 annual real wage growth stood at 1.6% (Chart 10). The March estimate was revised upwards to 2.3% (from 0.0%). In March 2019,

<sup>5</sup> MPR 1/19 suggested that the retail trade turnover growth would fall within the 1.5–2% range.

<sup>6</sup> In March 2019, Rosstat began publishing data on household money income and expenditures on a quarterly basis.

<sup>7</sup> For details see information and analytical commentaries *Consumer Price Dynamics, No. 4 (40), April 2019, and MPR 1/19.*

wages rose most noticeably in finances and insurance as well as in related sectors where one-off payments likely took place due to a significant improvement of companies' financial results for the previous year.<sup>8</sup> where one-off payments likely took place due to a significant improvement of companies' financial results for the previous year.<sup>9</sup> However, in other sectors, labour compensation dynamics remained contained and in line with the Bank of Russia's expectations. In the second and third quarters, annual real wage growth is expected to total 1.0–1.5%, which corresponds to the forecast<sup>10</sup> published in MPR 1/19.

## Forecast

The Bank of Russia estimates that GDP growth slowdown in 2019 Q1 will be temporary. The dynamics of economic activity indicators in April 2019 suggest that annual growth rate of output of products and services may increase in the second quarter.

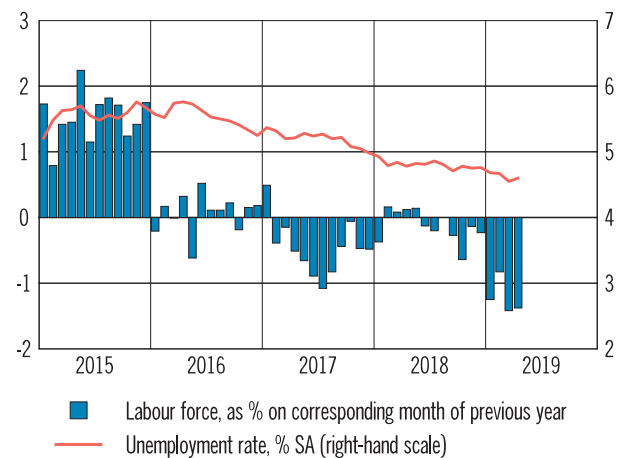
<sup>8</sup> *Legal and accounting activities (including audit), head office activities, management consulting, etc.*

<sup>9</sup> *Growth for 14 and 61% respectively after an over 40% drop in 2017.*

<sup>10</sup> *Wage growth in the first and second quarters was expected to be less than 2%.*

UNEMPLOYMENT AND LABOUR FORCE

Chart 9

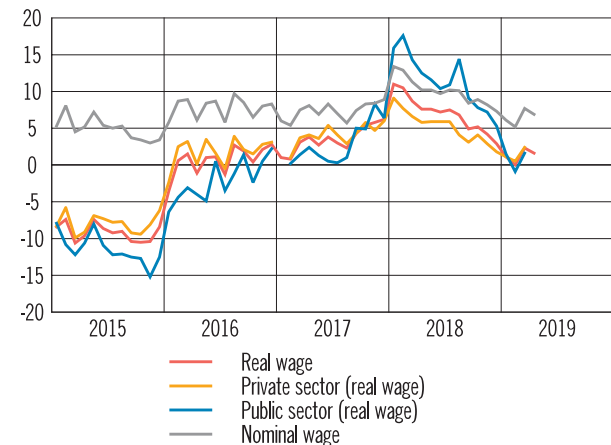


Sources: Rosstat, Bank of Russia calculations.

WAGES

Chart 10

Percent change on corresponding month of previous year



Sources: Rosstat, Bank of Russia calculations.

Cut-off date – 24.05.2019.

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

Please send your comments and suggestions to [svc\\_analysis@cbr.ru](mailto:svc_analysis@cbr.ru).

This commentary is prepared by the Monetary Policy Department.

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