



Bank of Russia



# ECONOMY

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Information and analytical commentary

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

In 2019 Q1, GDP growth slowed down following a decline in the gross value added or its slowdown in many sectors. This was caused by a number of temporary factors, including the reaction of demand to the VAT rate hike, possible correction in inventories, a weaker external demand, and a more pronounced decline in real budget expenditures at the beginning of the year. Growth in industrial output and freight turnover dropped in May after a surge in April. Investment activity remained unstable. Consumer demand was moderate amid slower real wage growth. GDP growth is expected to accelerate in the second and third quarters, as the effect of temporary factors fades, the implementation of national projects intensifies, and public investment rise. Forecasts suggest that GDP will grow by 1.0-1.5% in 2019.

### CORE ECONOMIC INDICATORS

Table 1

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

	2018	March 2019	2019 Q1	April 2019	May 2019
Output of goods and services by key industry	3.1	0.2	0.8	2.7	...
Industrial output	2.9	1.2	2.1	4.6	0.9
Agricultural output	-0.6	1.5	1.1	1.4	1.0
Construction	5.3	0.2	0.2	0.0	0.2
Freight turnover	2.8	2.6	2.3	2.5	1.1
Retail trade turnover	2.8	1.7	1.9	1.6	1.4
Unemployment rate / seasonally adjusted* (% of labour force)	4.8	4.7 / 4.5	4.8 / 4.5	4.7 / 4.6	4.5 / 4.6
Nominal wage	11.6	7.7	6.5	8.4	8.1
Real wage	8.5	2.3	1.3	3.1	2.8
Household real disposable money income	0.1	-	-2.3	-	-

\* Bank of Russia estimate.

Source: Rosstat.

## GDP

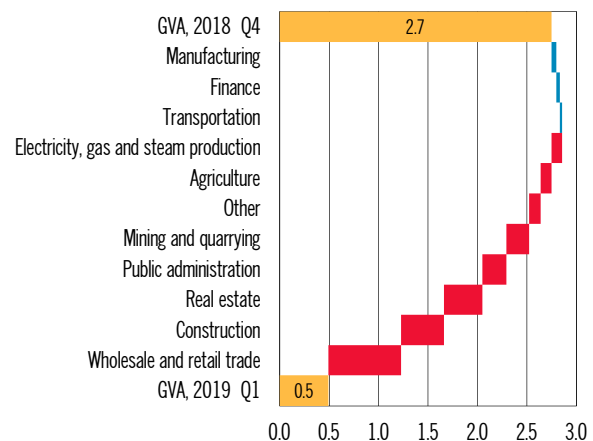
A number of temporary factors, including the reaction of demand to the VAT rate hike and possible correction in inventories, brought annual GDP growth down to 0.5% in 2019 Q1 (2.7% in 2018 Q4). A temporary decrease in real consolidated budget expenditure due to a more pronounced shift in expenditures to the second half of the year had a negative effect on the gross value added (GVA) in a number of sectors.

Broken down by sectors, the largest contribution to GDP dynamics came from GVA contraction in wholesale and retail trade, which was affected, in particular, by the shrinkage in natural gas exports on the back of a lower demand amid warm weather in Europe (Chart 1). GVA contraction in construction and real estate transactions also had a pronounced effect on

### DECOMPOSITION OF ANNUAL GVA GROWTH RATES IN 2019 Q1 BY ECONOMIC ACTIVITY

Chart 1

(pp)

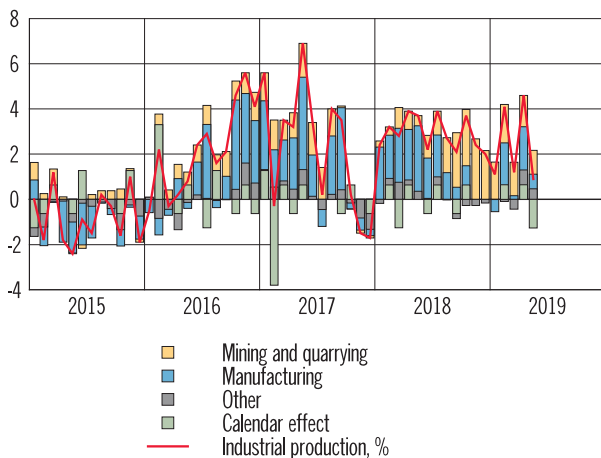


Sources: Rosstat, Bank of Russia calculations.

## INDUSTRIAL PRODUCTION

Chart 2

Contribution to annual growth, pp

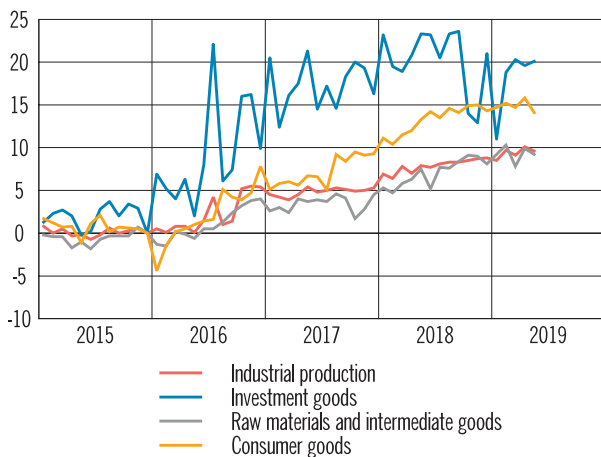


Sources: Rosstat, Bank of Russia calculations.

INDUSTRIAL PRODUCTION  
BY PRODUCT GROUP

Chart 3

Per cent change on December 2015, SA



Sources: Rosstat, Bank of Russia calculations.

GDP. The slowdown of GVA growth in mining and quarrying was caused by a slack external demand and OPEC+ oil production caps.

## Production activity

After a rise to 4.6% in April, annual growth in industrial production slowed down to 0.9% in May (Table 1, Chart 2). The main role was played by the calendar effect: May 2019 had two work days fewer than May 2018 (April was one work day longer). Industrial production declined month-on-month (adjusted for seasonality of calendar effects, SA) to near the readings of the opening months of the year.

**Raw material production.** In May 2019, mineral production dropped (SA) as a result of delivery on the OPEC+ deal and a contraction of oil deliveries following the Druzhba oil pipeline contamination (Chart 3). Gas production revived as exports to non-CIS countries increased after a drop caused by a warm winter. May saw a contraction in coal exports following the increase in handling prices in the Vostochny seaport and the ongoing decline in coal prices in Europe. Coal production may continue to fall in the months to come.

**Intermediate goods production.** The production of a wide range of intermediate goods contracted in May (SA, Chart 3). The output of oil products, one of the most volatile components, dropped again (among other things, due to the repair of oil refineries). Output contracted in chemical production and production of rubber and plastics. Metallurgy bolstered output; its production increased mainly thanks to the expansion of non-ferrous metal production and exports amid moderate output of steel and steel pipes.

**Investment goods production.** Investment goods production remained close to the previous month reading (SA, Chart 3). The increase in production of engineering products, mainly mechanical and agricultural equipment, supported the output. An overhaul in the construction sector brought down construction material production.

**Consumer goods production.** The output of consumer goods contracted in May 2019 (SA). The decline in food production was registered

mostly in fruit and vegetable processing and was associated with the completion of processing of fruit and vegetables harvested in 2018. The drop in the output of non-food consumer goods resulted from the downturn in light vehicle production due to a slack consumer demand. The output of clothes, leather goods, and household appliances has remained on a moderately positive trend.

**Business survey.** According to survey data, business sentiment in industrial production overall deteriorated in May 2019. Rosstat's estimates suggest that the Business Confidence Index dropped in mining and quarrying and rose intangibly in manufacturing. A survey by Markit PMI<sup>1</sup> registered deterioration in manufacturing for the first time since August 2018; it resulted from a decline in export orders and a slowdown in output growth amid a rise in finished product inventories. The monitoring of enterprises by the Bank of Russia also points to a contraction in demand (Chart 4).

**Freight turnover.** Growth in the freight turnover slowed down in May to 1.1% YoY (2.5% a month earlier, Chart 5). Freight turnover broken down by transport showed mixed dynamics. Thereby, railway and motor transportation increased, whereas pipeline transportation showed a decline for a second month in a row (following the Druzhba pipeline accident).

## Investment activity

Estimates suggest that fixed capital investment reduced slightly in May 2019 (SA) after growth in the previous month. In annual terms, investment has been shrinking for four straight months (Chart 6). According to the estimates, contraction in public investment continues to contribute to investment activity; this may be associated with federal budget execution under national programmes.<sup>2</sup>

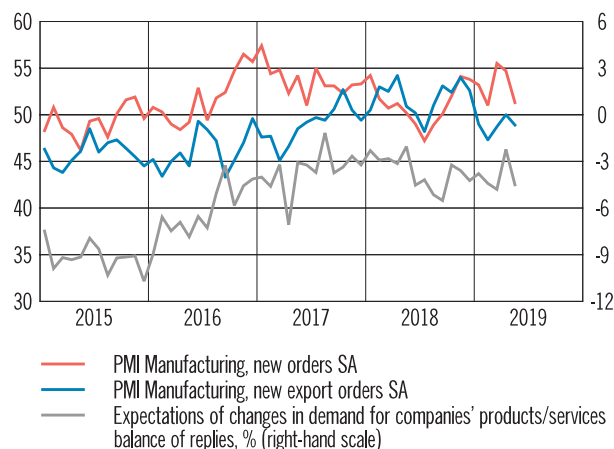
Despite the fact that the ruble has appreciated since the year-start, in May 2019, engineering imports from non-CIS countries declined by 11.1% YoY after growth of 5.2% a

<sup>1</sup> Purchasing Managers' Index. For details, see: [www.markiteconomics.com/public](http://www.markiteconomics.com/public).

<sup>2</sup> As of the end of May, less than 20% of total annual budget funding was used in over a half of national projects.

COMPANIES' ESTIMATES OF DEMAND FOR THEIR PRODUCTS

Chart 4

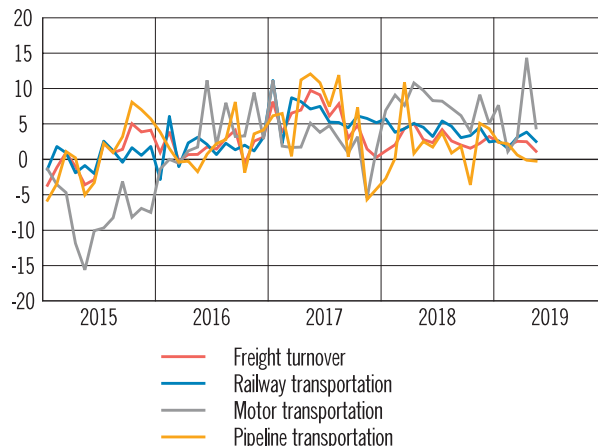


Sources: IHS Markit, monitoring of enterprises by the Bank of Russia.

FREIGHT TURNOVER

Chart 5

Per cent change on corresponding month of previous year

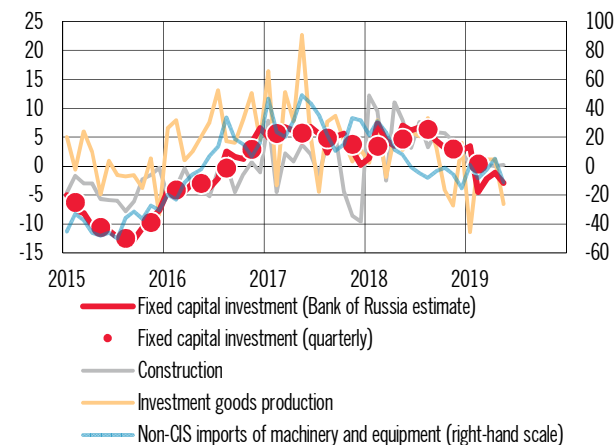


Source: Rosstat.

INVESTMENT ACTIVITY INDICATORS

Chart 6

Per cent change on corresponding period of previous year

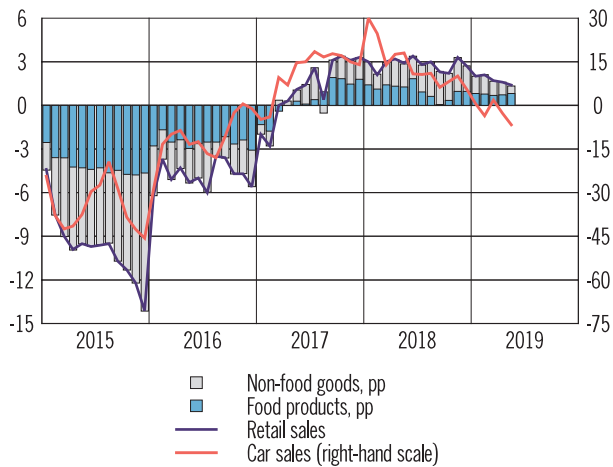


Sources: Rosstat, FCS, Bank of Russia calculations.

RETAIL SALES  
AND CAR SALES

Chart 7

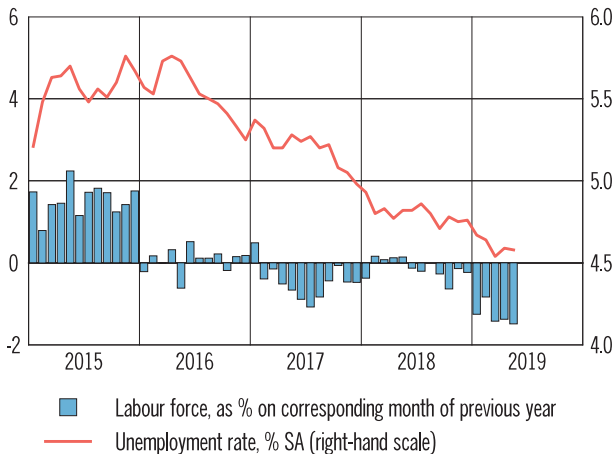
Per cent change on corresponding month of previous year



Sources: Rosstat, Association of European Businesses, Bank of Russia calculations.

## UNEMPLOYMENT AND LABOUR FORCE

Chart 8

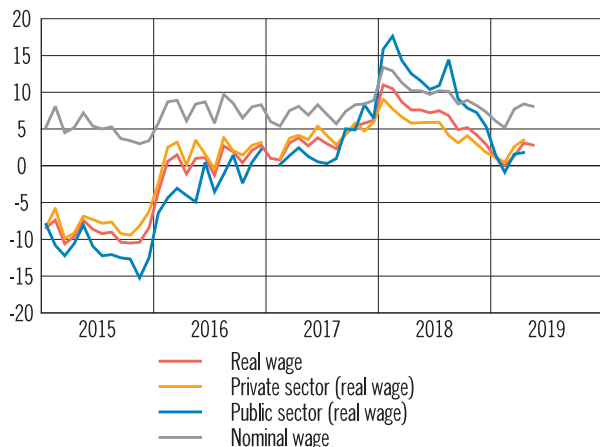


Sources: Rosstat, Bank of Russia calculations.

## WAGES

Chart 9

Per cent change on corresponding month of previous year



Sources: Rosstat, Bank of Russia calculations.

month earlier; this may be in part explained by the calendar effect. The drop in investment imports was observed in all key goods items. At the same time, construction works held in May at the previous month's level (SA). That said, their year-to-date growth has remained close to zero, which may be associated with statistics specifics.<sup>3</sup>

## Consumer activity

Consumer demand remained moderate amid stagnant real disposable money income. In May 2019, the growth rate of retail sales continued to slow down to 1.4% YoY after 1.6%<sup>4</sup> a month earlier (Chart 7). Growth in sales slowed down mainly because of non-food goods sales (May – 1.0%; April – 1.7%). Car sales dropped pronouncedly by 6.7%. At the same time, food sales grew by 1.7% YoY after 1.5% in the previous month.

## Labour market

In May 2019, unemployment remained at its lowest of 4.6% SA (Chart 8). According to HeadHunter, the demand for labour force has shrunk for the first time since summer 2017 by 4% YoY; this must be associated with slower growth in the economic activity. Survey data also point to a deterioration in employers' sentiment (employment PMI is 48.8 SA). Current trends may contain further decline in unemployment.

Rosstat revised the annual real wage growth rate considerably upwards, from 1.6% to 3.1% (Chart 9). Growth acceleration (by 0.8 pp compared with March) was driven by private sector performance (finance, mining and quarrying, HoReCa) and, presumably, one-time payments. In May 2019, annual real wage growth is estimated at 2.8%. According to the Bank of Russia forecast, it will come in at approx. 2% in 2019 Q2-Q3.

<sup>3</sup> The initial Rosstat data on construction works may differ from the final estimate because contractors usually provide wrong (understated) statistics and adjust them throughout the calendar year.

<sup>4</sup> Rosstat revised upwards the annual growth rate of retail sales in January-April 2019. The previous estimate for April 2019 was 1.2%.

## Forecast

According to the Bank of Russia forecast, Russia's economic growth will accelerate in 2019 Q2-Q3 on the back of a rise in consumer activity as the impact of temporary factors is

exhausted, the implementation of national projects intensifies, and public investment grows. Forecasts suggest that GDP will grow by 1.0-1.5% in 2019.

Cut-off date – 20.06.2019.

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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