



Bank of Russia



ECONOMY

No. 6 (42) • June 2019

Information and analytical commentary

30 July 2019

Economy: Facts, Estimates and Comments (June 2019)

The Russian economy has posted growth rates lower than expectations of the Bank of Russia for the year to date. This is due to sluggish investment activity and a significant drop in annual export growth rates, including on the back of weaker external demand. However, June 2019 showed an increase in economic activity. Consumer demand trends improved. Industrial production growth accelerated, although that could be temporary. Dynamics of investment activity indicators were also unsteady. The Bank of Russia estimates that the annual GDP growth increased to 0.5–1% in 2019 Q2. In 2019 Q3, as national projects are implemented and public investments are expanded, the GDP growth rate will accelerate to 0.8–1.3%.

YEAR-ON-YEAR GROWTH
(%, unless indicated otherwise)

Table 1

	2018	2019 Q1	April 2019	May 2019	June 2019	2019 Q2
Output of goods and services by key industry	3.1	0.9	2.9	-0.3
Industrial output	2.9	2.1	4.6	0.9	3.3	3.0
Construction	5.3	0.2	0.0	0.2	0.1	0.1
Freight turnover	2.8	2.2	2.6	0.9	0.3	1.3
Agricultural output	-0.6	1.1	1.4	1.0	1.1	1.2
Retail turnover	2.8	1.9	1.6	1.4	1.4	1.5
Paid services	2.5	1.0	0.6	-0.3	-3.5	2.4*
Unemployment rate / seasonally adjusted* (% of work force)	4.8	4.8 / 4.5	4.7 / 4.6	4.5 / 4.6	4.4 / 4.5	4.6 / 4.7
Nominal wage	11.6	6.5	8.4	6.8	7.1	7.4
Real wage	8.5	1.3	3.1	1.6	2.3	2.3
Household real disposable money income	0.1	-2.5	–	–	–	-0.2

* Bank of Russia estimate.

Source: Rosstat.

Production activity

In June 2019, the annual industrial production growth accelerated to 3.3% (vs 0.9% in May). The output increase was mainly boosted by manufacturing (owing to engineering products, see more details below), while the mining sector's output dwindled (Chart 1). The seasonally adjusted monthly industrial output improved (Chart 3).

Raw material production. As in the previous months, the annualised mining output growth in June was primarily retarded by oil and gas (Chart 2). The seasonally adjusted monthly increase in mining outputs was close to zero. Oil production was limited due to fulfilment of the OPEC+

deal and consequences of the technical issues with export oil supplies through the Druzhba pipeline. Due to the persisting weak demand in the European countries and maintenance works at the Nord Stream 2 pipeline scheduled for July 2019, seasonally adjusted gas production diminished (vs the previous month). Predictably, the seasonally adjusted decrease in coal production accelerated (both month-on-month and year-on-year)¹.

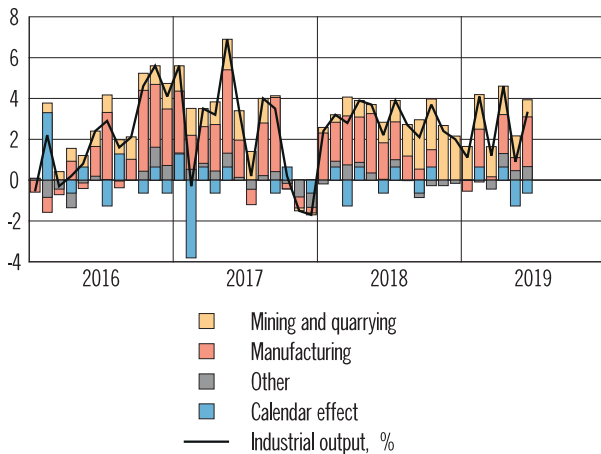
The mining output dynamics were driven by provision of services related to oil and natural gas production. Rock extraction also increased, which could be explained by

¹ See information and analytical commentary 'Economy' No. 5 (41), May 2019.

INDUSTRIAL OUTPUT

Chart 1

Contribution to annual growth, pp

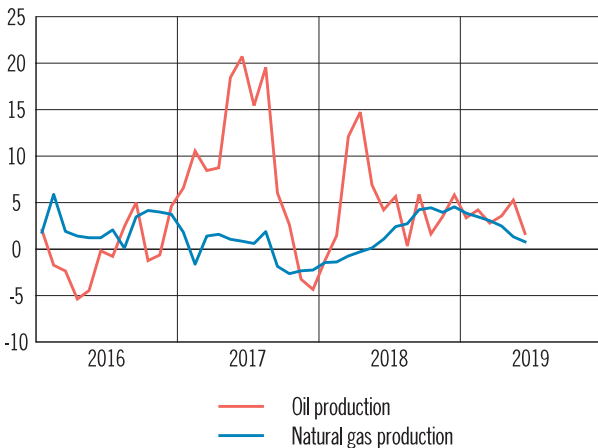


Sources: Rosstat, Bank of Russia calculations.

OIL AND GAS PRODUCTION

Chart 2

% change vs the same month of the previous year

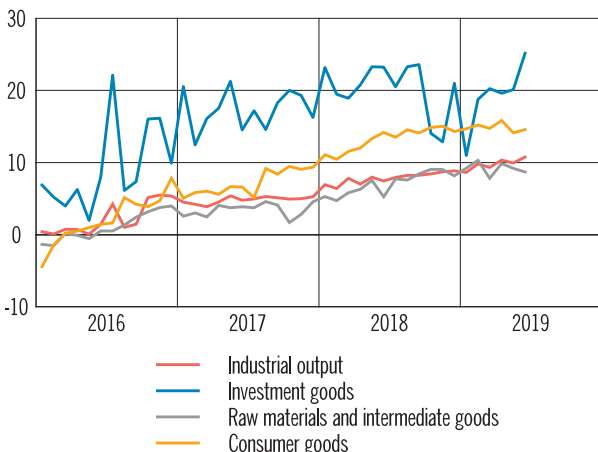


Source: Central Dispatch Department of the Fuel and Energy Complex.

INDUSTRIAL PRODUCTION
BY PRODUCT GROUP

Chart 3

Seasonally adjusted growth, %, vs December 2015 (level)



Sources: Rosstat, Bank of Russia calculations.

the improvement works being conducted in the country's major cities².

Intermediate goods production. In June 2019, the seasonally adjusted output of intermediate goods continued to decline (vs May 2019). As in the previous month, petroleum product output decreased. Output in the metallurgical industry considerably dropped. That was mainly caused by specific factors in non-ferrous metal and nuclear fuel production. An additional factor moderating production activity in the metallurgical sector in general is the competition intensified by the adverse conditions in the global markets, including on the part of China.

Investment goods production. As compared to the previous month, the seasonally adjusted output of investment goods significantly increased, having reached its historical maximum. That was primarily driven by the output of engineering products, which could be related to fulfilment of large-scale orders, including for export. Such orders could be non-recurring, and it is therefore too early to speak of a stable increase in the output of investment products.

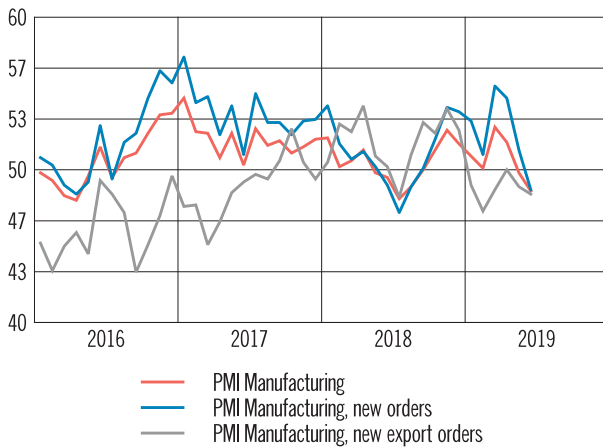
However, the survey findings (see below) did not evidence a substantial growth of the engineering product output. The most probable reason for such results is that the output increase was demonstrated by several major producers who did not participate in the survey sample.

Consumer goods production. In June 2019, the seasonally adjusted output of consumer goods improved (vs May 2019). The increase in the output of non-food consumer goods was driven by consumer demand expansion (see the Consumer activity section). The output of vehicles and household appliances was up. The seasonally adjusted output of food products

² See information and analytical commentary 'Economy' No. 4 (40), April 2019.

COMPANIES' ESTIMATES OF DEMAND
FOR THEIR PRODUCTS (SA)

Chart 4

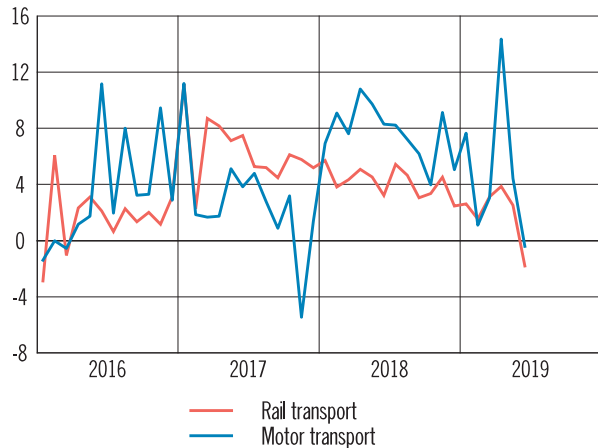


Source: IHS Markit.

FREIGHT TURNOVER

Chart 5

% change vs the same month of the previous year

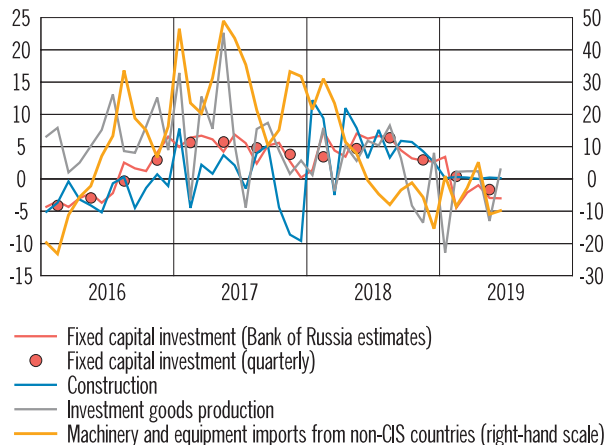


Source: Rosstat.

INVESTMENT ACTIVITY INDICATORS

Chart 6

% change vs the same period of the previous year



* Fixed capital investment in 2019 Q2 – Bank of Russia estimates.
Sources: Rosstat, FCS, Bank of Russia calculations.

remained close to the level recorded in the previous month.

Business survey. According to the findings of Rosstat's business activity survey and the monitoring of enterprises carried out by the Bank of Russia, June saw a moderate deterioration of sentiment in the mining industry, which was in line with the actual slowdown of mining output growth. Rosstat's survey and the Bank of Russia's monitoring of enterprises showed that seasonally adjusted business activity estimates stayed at the level of the previous month. The survey carried out by IHS Markit PMI³ evidenced that sentiment in the manufacturing sector considerably worsened in June. That was caused by a reduction in both domestic and export orders for the companies' products (Chart 4).

Transport. In June 2019, the annual growth rate of freight turnover dropped to 0.3% (vs 0.9% in May). Rail transportation of coal and metals substantially shrank, which was caused by a smaller output of those goods (Chart 5).

Investment activity

According to the Bank of Russia's estimates, seasonally adjusted fixed capital investment continued to decrease in June 2019 both month-on-month and year-on-year (Chart 6). This is evidenced by the dynamics of indirect indicators, first of all investment goods import.

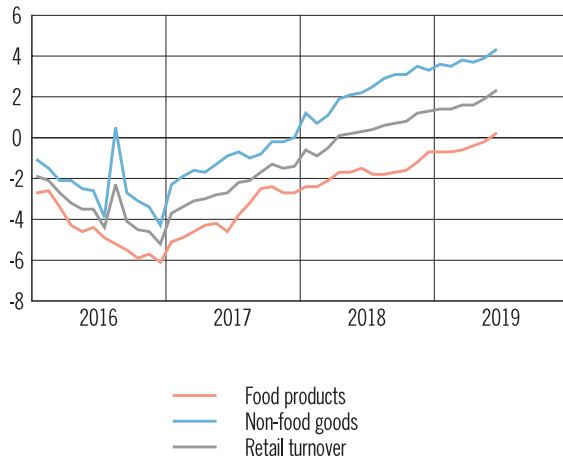
Generally, the decline of that indicator in 2019 Q2 is estimated at 1.3–1.8% as compared to the same period last year. Weak investment activity is in many ways linked to lower government investment against the same period in 2018. Thus, in April-May 2019, estimated capital costs of the budget system dropped by 11.8% in nominal terms. In that context, the estimated contribution

³ Purchasing Managers' Index. For more details see www.markiteconomics.com/public.

RETAIL TURNOVER

Chart 7

% growth vs December 2015, SA

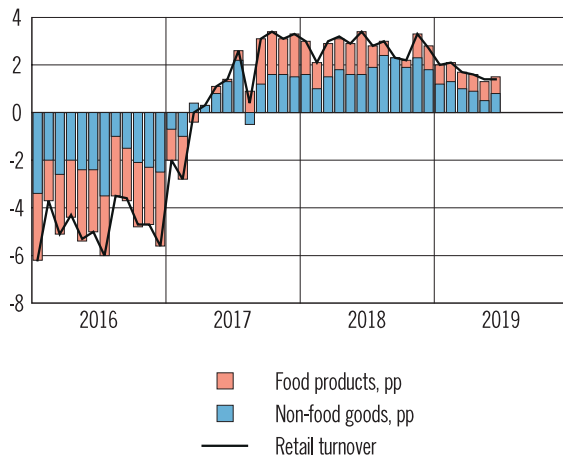


Sources: Rosstat, Bank of Russia calculations.

RETAIL TURNOVER

Chart 8

% change vs the same month of the previous year



Sources: Rosstat, Bank of Russia calculations.

of state investment to the annual growth of fixed capital investment remained negative in 2019 Q2⁴.

Consumer activity

In June 2019, consumer activity slightly upturned. Seasonally adjusted growth in sales of food and non-food products speeded up (vs the previous month, Chart 7). As in May, the annual retail sales growth rate came in at 1.4% (Chart 8), even with account of the high base effect: June 2018 saw high retail sales driven, among others, by the FIFA World Cup. Following the results of 2019 Q2, the annual growth rate of the indicator was 1.5%, which is in line with the lowest limit of the forecast (1.5–2%) published in [Monetary Policy Report No. 2 in June 2019](#).

Consumer activity revival in June 2019 was partially driven by a lower decline in real disposable household income (see the Labour market and household income section).

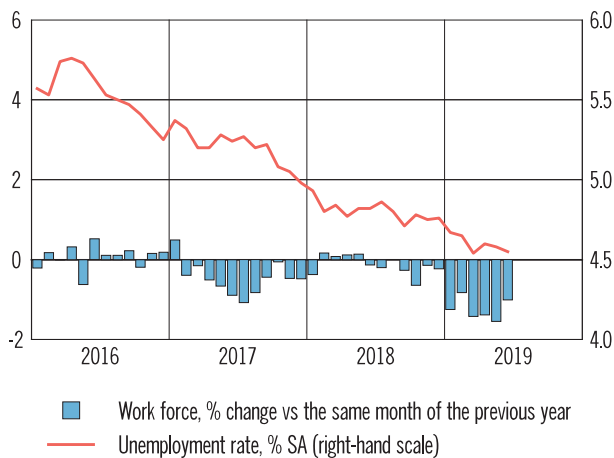
A slight improvement of consumer sentiment positively influenced household demand for goods and services. Thus, according to Rosstat, the consumer confidence index continued to grow in 2019 Q2. That could be explained by slower inflation after its temporary rise at the beginning of the year caused by the VAT rate growth. Along with that, inFOM's consumer sentiment index⁵ dropped primarily due to the respondents' worsened opinions regarding the country's development prospects. In that context, it is premature to speak of a sustainable acceleration of consumer demand growth.

⁴ In 2019 Q1, state investment decreased by 19.4% on a year-on-year basis. For more details see [Monetary Policy Report No. 2 \(June 2019\)](#).

⁵ See information and analytical commentary 'Inflation Expectations and Consumer Sentiment' No. 7 (31), July 2019.

UNEMPLOYMENT AND WORK FORCE

Chart 9

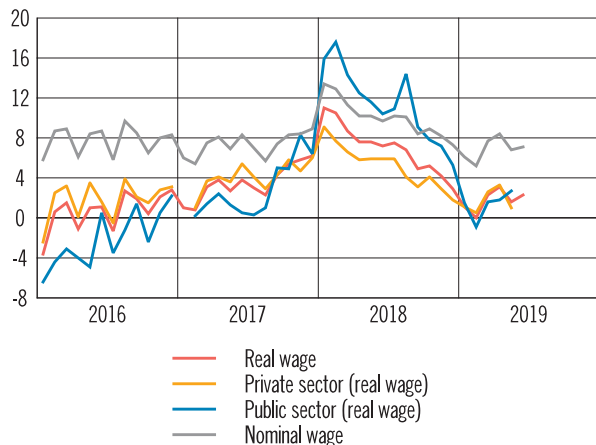


Sources: Rosstat, Bank of Russia calculations.

WAGES

Chart 10

% change vs the same month of the previous year

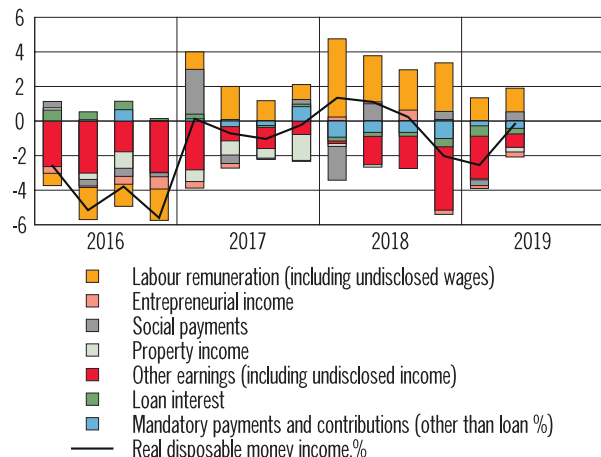


Sources: Rosstat, Bank of Russia calculations.

HOUSEHOLD REAL DISPOSABLE MONEY INCOME

Chart 11

Contribution to annual growth, pp



Sources: Rosstat, Bank of Russia, Bank of Russia calculations.

The growth rate of consumer lending slowed down in May-June 2019⁶. Therefore, the share of loans in consumer expenses is decreasing, yet without considerable pressure on their growth on the back of the improved income dynamics.

Labour market and household income

In June 2019, the seasonally adjusted unemployment rate was close to its historical minimum (4.5%, Chart 9). That was accompanied by the work force reduction (YoY) primarily caused by demographic factors. According to the estimates, there will be a 1–1.5% decrease in work force in 2019, which can limit economic activity growth.

In May-June 2019, the annual real wage growth slacked off to 1.6–2.3% after its temporary increase in April driven by non-recurring payments (Chart 10). In 2019 Q2, the annual real wage growth is estimated at 2.3%, which is in line with the previous forecasts of the Bank of Russia⁷.

In 2019 Q2, the annual decline rate of household real disposable money income retarded to 0.2% (vs 2.5% in Q1, Chart 11). That is explained by the pension increase to the regional subsistence minimums⁸. As a result, the contribution of social payments to annual income growth became positive. The improvement in income dynamics was also significantly driven by a slower decrease in other income.

⁶ See information and analytical material 'Russian Banking Sector Developments in 2019 H1'.

⁷ The forecast growth of the indicator was about 2% in the previous information and analytical commentary 'Economy' No. 5 (41), May 2019.

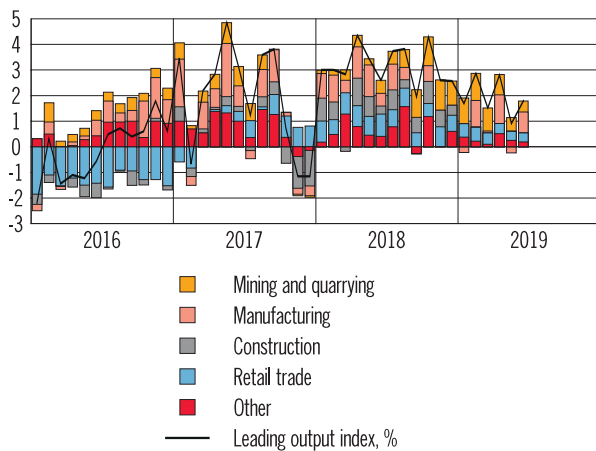
⁸ Pursuant to Federal Law No. 49-FZ, dated 1 April 2019, pensions were recalculated, and that process should be completed by the end of May 2019.

LEADING OUTPUT INDEX

Chart 12

Forecast

Contribution to annual growth, pp



Sources: Rosstat, Bank of Russia calculations.

In June 2019, the growth of the leading output index accelerated (Chart 12). That is a sign of higher economic activity. The industrial output growth and consumer demand dynamics improved.

The Bank of Russia estimates that the annual GDP growth in 2019 Q2 increased to 0.5–1%, which conforms to the forecast published in Monetary Policy Report 2/19. The growth rate of household final consumption expenditure is estimated at 1.3–1.8%. Estimated gross fixed capital formation dropped by 0.5–1% year-on-year (Monetary Policy Report 2/19 forecast a 0.5–1% growth). Estimated growth of the indicator was lowered firstly due to weak investment activity dynamics in 2019 Q2, including investment goods import. Secondly, Rosstat's data evidence a substantial reduction in 2019 Q1 in those components of gross fixed capital formation that were not included into the calculation of the fixed capital investment value. Dynamics of those components could also retard growth of gross fixed capital formation in 2019 Q2.

In 2019 Q3, as national projects are implemented and public investments are expanded, the GDP growth rate will accelerate to 0.8–1.3%.

The cut-off date is 26 July 2019.

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

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

This commentary was prepared by the Monetary Policy Department.

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