



Bank of Russia



# ECONOMY

No.7 (43) • July 2019

Information and analytical commentary

26 August 2019

## Economy: Facts, Estimates and Comments (July 2019)

In 2019 Q2, the annual GDP growth rate rose to 0.9%; estimates suggest that this was associated with an improvement in the investment activity after a tangible drop in the first quarter. In July 2019, its year-on-year indicators also increased. Growth in consumer demand remains moderate amid stagnant household incomes. Production activity indicators showed mixed dynamics in July. On the one hand, growth in industrial production slowed on the back of the expected adjustment in mechanical engineering output. On the other hand, agricultural output rose pronouncedly, in part, due to earlier harvesting. According to the Bank of Russia's forecast, the implementation of national projects and the increase in public investment will raise the growth rate of gross fixed capital formation (GFCF) in the third quarter to 0.5-1.0%, whereas GDP will grow by 0.8-1.3%.

### CORE ECONOMIC INDICATORS

Table 1

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

	2018	2019 Q1	April 2019	May 2019	June 2019	2019 Q2	July 2019
Output of goods and services by key industry	3.1	0.9	2.9	-0.3	1.9	1.5	...
Industrial output	2.9	2.1	4.6	0.9	3.3	3.0	2.8
Construction	5.3	0.2	0.0	0.2	0.1	0.1	0.2
Freight turnover	2.9	2.2	2.6	0.9	0.4	1.3	1.2
Agricultural output	-0.6	1.1	1.4	1.0	1.1	1.2	5.9
Retail sales	2.8	1.9	1.6	1.4	1.4	1.5	1.0
Commercial services to the population	1.4	-0.8	-0.4	-1.0	-3.5	-1.5	-2.7
Unemployment rate / seasonally adjusted* (% of labour force)	4.8	4.8/4.5	4.7/4.6	4.5/4.6	4.4/4.5	4.6/4.7	4.5/4.6
Nominal wage	11.6	6.5	8.4	6.8	7.7	7.7	8.2
Real wage	8.5	1.3	3.1	1.6	2.9	2.6	3.5
Household real disposable money income	0.1	-2.5	-	-	-	-0.2	-

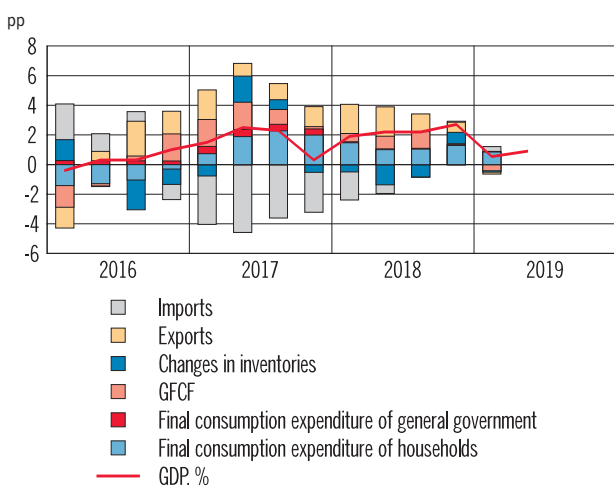
\* Bank of Russia estimate.

Source: Rosstat.

### DECOMPOSITION OF ANNUAL GDP GROWTH

Chart 1

### GDP



Sources: Rosstat, Bank of Russia calculations.

According to Rosstat's preliminary estimate, annual GDP growth rose to 0.9% in 2019 Q2 (2019 Q1, 0.5%) (Chart 1). This is in line with the Bank of Russia's forecast range<sup>1</sup> of 0.5-1.0%. Estimates suggest that consumer demand remained the main growth driver. That said, GDP growth increased on the back of a smaller GFCF contraction compared with the previous quarter (Table 2).

According to the Bank of Russia's estimates, GFCF shrank by 0.5-1.0% YoY. The fact that the indicator decreased less than in the previous quarter may be attributed to the dynamics of

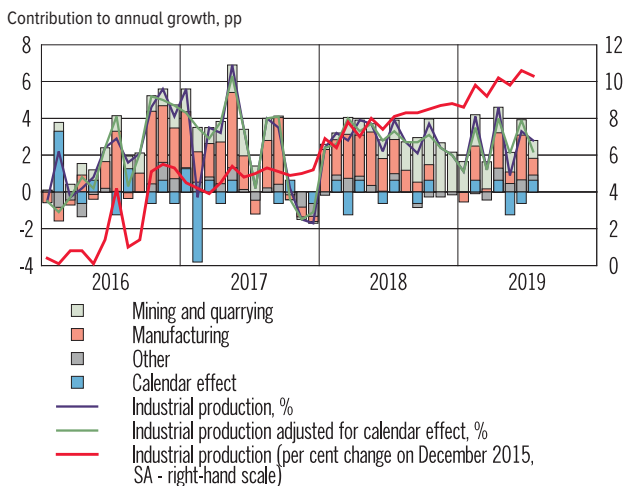
<sup>1</sup> See *Monetary Policy Report, No. 2 (26), June 2019, and information and analytical commentary Economy, No. 6 (42), June 2019.*

**GROWTH IN GDP COMPONENTS BY EXPENDITURE** *Table 2*  
(per cent change on corresponding period of previous year)

	2018	2019 Q1	2019 Q2
GDP	2.3	0.5	0.9
Final consumption expenditure	1.8	1.2	1.0–1.5
– households	2.3	1.6	1.5–2.0
Gross capital formation	0.8	-3.1	-(0.0–0.5)
– Tier 1 capital	2.9	-2.6	-(0.5–1.0)
Exports	5.5	-0.4	-(0.3–0.8)
Imports	2.7	-1.6	-(1.0–1.5)

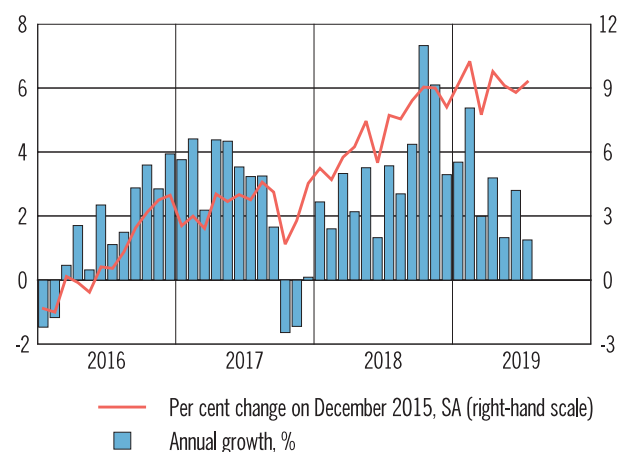
Sources: Rosstat, Bank of Russia calculations.

**INDUSTRIAL PRODUCTION** *Chart 2*



Sources: Rosstat, Bank of Russia calculations.

**RAW MATERIALS AND INTERMEDIATE GOODS** *Chart 3*



Sources: Rosstat, Bank of Russia calculations.

GFCF components included in the calculation of fixed capital investment. Investments in these non-financial assets dropped pronouncedly in 2019 Q1. Estimates suggest that in 2019 Q2 the constraining effect of these components on GFCF growth eased. According to estimates, annual growth of other GDP components remained virtually unchanged quarter on quarter.

## Production activity

In July 2019, the annual growth rate of industrial production slowed to 2.8% (in June, 3.3%) (Chart 2). Industrial production shrank month on month, seasonally adjusted (SA). These dynamics are attributed to a partial adjustment of mechanical engineering output after a surge in June. The trend towards a gradual increase in industrial production has continued despite volatility.

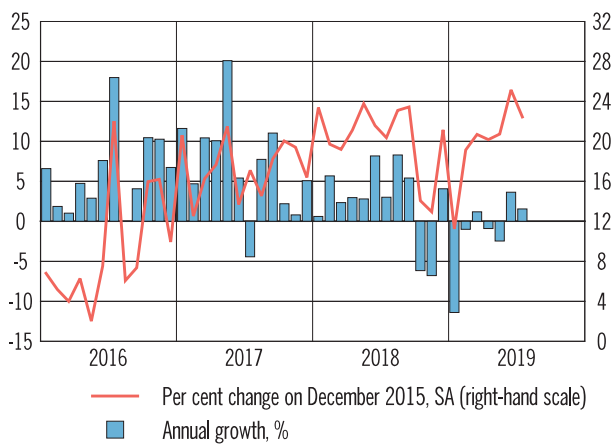
**Raw material production.** In July 2019, mineral production resumed month-on-month growth (SA) on the back of a rise in the output of other minerals (clay and natural stone used in construction), and the expansion of mining-related services (including geological exploration) (Chart 3). In the fuel and energy sector, oil production continued to increase after the technical problems with export supplies through the Druzhba pipeline were solved. The production of liquefied natural gas rose considerably. However, coal production shrank amid slack external demand.

**Intermediate goods production.** The production of intermediate goods held at the previous month's level (SA) in July 2019. As repairs were completed at oil processing plants,<sup>2</sup> the output of petroleum products recovered to the level of early 2019. In light of this, the output of oil-derived chemicals (coating materials) increased, too. Metallurgical production continued to contract on the back of the unfavourable state of global markets which resulted from the escalation of trade tensions and economic slowdown in Turkey and Europe.

<sup>2</sup> The information and analytical commentary *Economy* (No. 5 (41), May 2019) noted that the closing of oil processing plants was among the factors which triggered contraction in the output of oil products.

## INVESTMENT GOODS

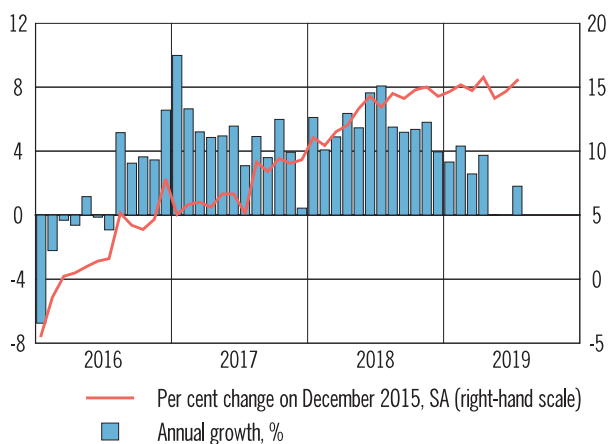
Chart 4



Sources: Rosstat, Bank of Russia calculations.

## CONSUMER GOODS

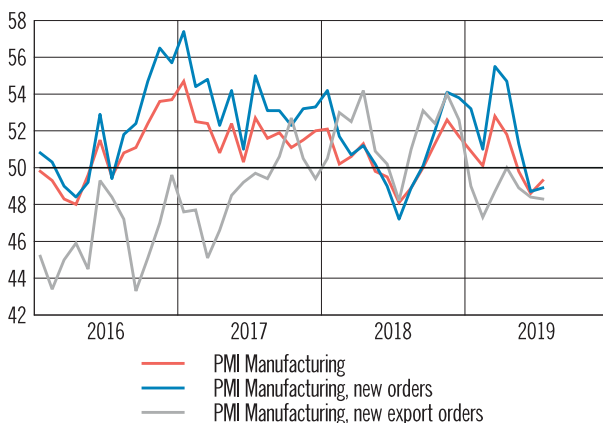
Chart 5



Sources: Rosstat, Bank of Russia calculations.

## COMPANIES' ESTIMATES OF DEMAND FOR THEIR PRODUCTS (SA)

Chart 6



Source: IHS Markit.

**Investment goods production.** The output of investment goods expectedly adjusted downwards in July 2019 (MoM SA) after a surge in June (Chart 4). The output in mechanical engineering remained in June<sup>3</sup> at an average level seen in 2018 – 2019 H1, adjusted for temporary factors.

The production of construction materials, mostly the output of aluminium constructions, posted significant growth. Growth also recovered in the output of glass and tiles. That said, the increase in the output of construction materials has yet to be translated to the dynamics of construction works (see the Investment Activity section).

**Consumer goods production.** The output of consumer goods continued to rise in July 2019 (compared with June, SA) driven by the increase in food production amid the growing output of agricultural produce (Chart 5). Growth was registered in a wide range of sectors, from vegetable processing to livestock production.

The output of non-food goods contracted compared with the previous month (SA) as the production of durable goods (household appliances and motor vehicles) decreased amid lower consumption.

**Business survey.** Survey data point to an ongoing decline in business activity in industrial production. The IHS Markit PMI index<sup>4</sup> came in at 49.3 points in July, holding below 50, though it increased slightly compared with June (Chart 6). The deterioration in market conditions was caused by the fall in both domestic and external demand. According to a Rosstat survey, business activity in mining and quarrying dropped in July (SA), whereas it held at the previous month level in manufacturing. Companies noted insufficient demand for their products in the domestic market, economic uncertainty and high taxes among the factors containing production growth.

**Agriculture.** In July 2019, the agricultural output increased by 5.9% YoY (in June, 1.0%). Output growth accelerated in both livestock production and crop farming. Estimates

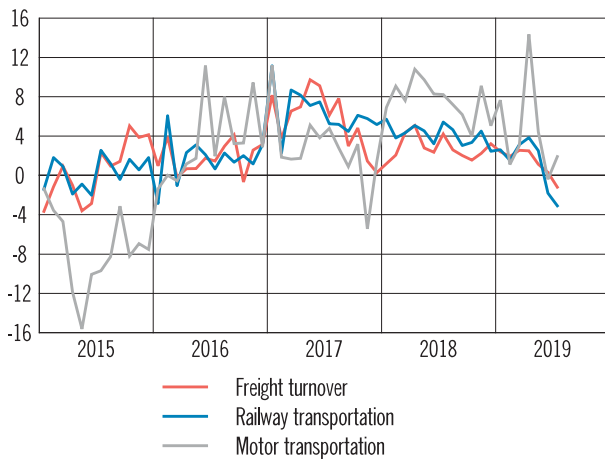
<sup>3</sup> See the information and analytical commentary *Economy*, No. 6 (42), June 2019.

<sup>4</sup> Purchasing Managers' Index. For details, see [www.markiteconomics.com/public](http://www.markiteconomics.com/public).

## FREIGHT TURNOVER

Chart 7

Per cent change on corresponding period of previous year

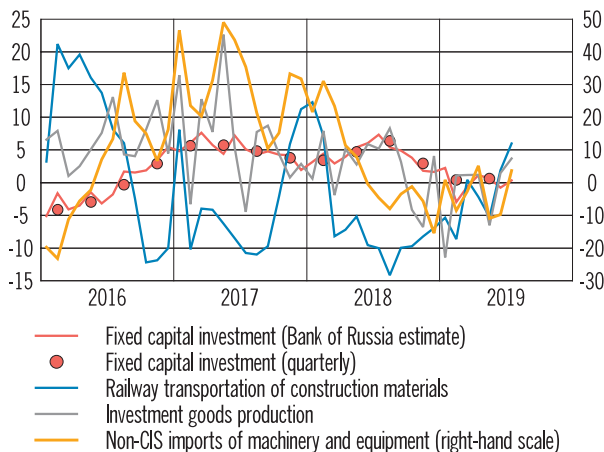


Source: Rosstat.

## INVESTMENT ACTIVITY INDICATORS

Chart 8

Per cent change on corresponding period of previous year

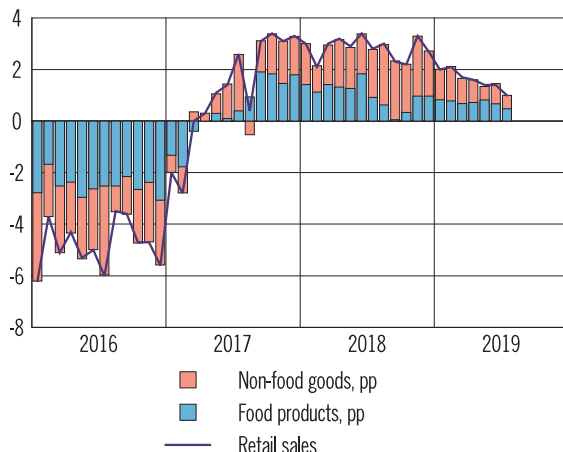


Sources: Rosstat, FCS, Bank of Russia calculations.

## RETAIL SALES

Chart 9

Per cent change on corresponding period of previous year



Sources: Rosstat, Bank of Russia calculations.

suggest that earlier harvesting in 2019 made a considerable contribution to annual growth in the production of agricultural produce. Harvesting of crops and beans in most parts of the Russian territory started earlier than in the previous year, and by 1 August 2019 the grain harvest was 17% larger than by the same day last year. That said, online data by Russia's Ministry of Agriculture suggest that by mid-August grain output had nearly returned to that of last year's reading. According to estimates, growth in the output of agricultural produce is set to slow down in the upcoming months.

**Transport.** Railway transportation contracted in July by 3.1% YoY (the lowest growth since March 2013, Chart 7). The main contribution to the year-on-year contraction of railway transportation came from the decline in coal and ferrous metal exports (due to a slack demand). However, the transportation of construction materials increased. Motor and pipeline transportation rose somewhat in July. Overall, freight turnover dropped by 1.2% YoY (the lowest since July 2015).

## Investment activity

Annual growth in fixed capital investment came in at 0.6-0.7% in 2019 Q2, estimates suggest (in 2019 Q1, 0.5%, Chart 8). This exceeded the Bank of Russia's previous estimate, which suggested that Q2 fixed capital investment *dropped* by 1.3-1.8%.<sup>5</sup> This estimate was largely based on the dynamics of engineering imports which contracted considerably in the period under review. The Q2 investment demand may be largely satisfied by domestically produced items.

At the same time, growth in investment activity remained low largely due to the decline in public investment. The annual rate of contraction in capital expenditures of the budget system came in at 6.5% in the nominal terms in 2019 Q2.<sup>6</sup> In these circumstances, the contribution of public investment to the annual

<sup>5</sup> See the information and analytical commentary *Economy*, No. 6 (42), June 2019.

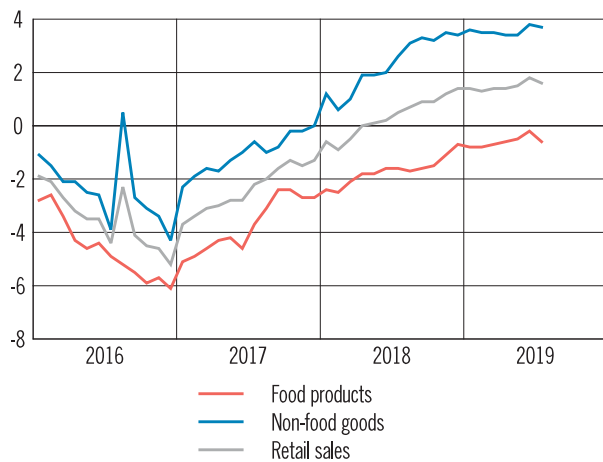
<sup>6</sup> In June 2019, the contraction of expenditure slowed down to 3.6% YoY (in April-May, 11.8%).



## RETAIL SALES

Chart 10

Per cent change on December 2015, SA

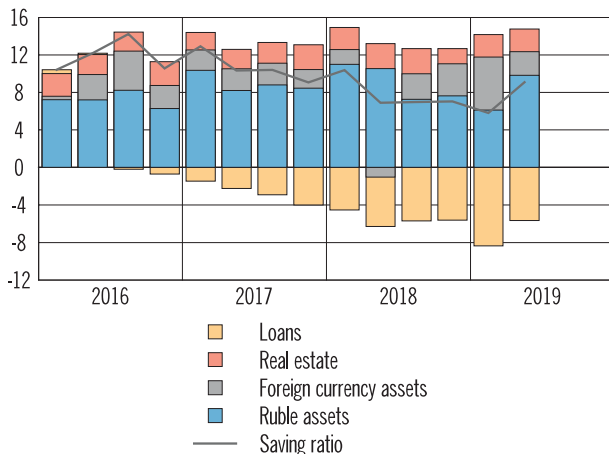


Sources: Rosstat, Bank of Russia calculations.

## SAVING RATIO

Chart 11

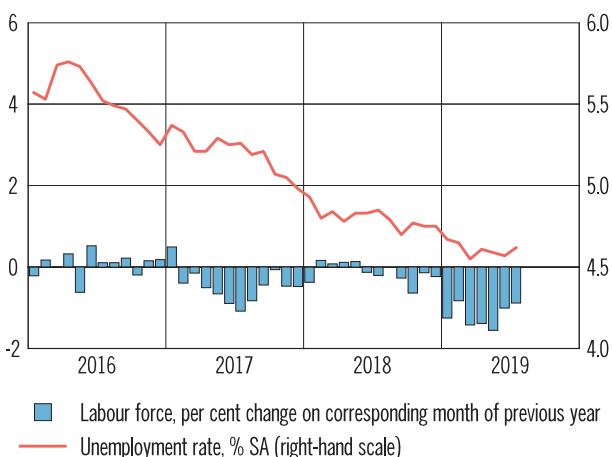
Percentage of household disposable income SA



Sources: Rosstat, Bank of Russia calculations.

## UNEMPLOYMENT AND LABOUR FORCE

Chart 12



Sources: Rosstat, Bank of Russia calculations.

growth of fixed capital investment in 2019 Q2 is estimated to be negative.<sup>7</sup>

In July 2019, investment activity indicators rose (Chart 8). The production and imports of investment goods grew year on year. However, growth in construction works in January-July 2019 remained close to zero compared to the same period of the previous year, which may be attributed to statistical features.<sup>8</sup>

## Consumption and savings

In July 2019, consumer demand remained moderate. Annual growth in retail sales slowed down to 1%, the lowest reading since September 2017 (Chart 9). The growth slowdown was uniform and was registered in all product categories. Sales declined month on month (SA) after growth in June (Chart 10).

Moderate dynamics of consumer demand formed amid stagnant real disposable household income. This was reflected in the rise in the savings rate in 2019 Q2 (Chart 11). In 2019 Q3, annual growth in retail sales is forecast to stand at 1.2-1.7%.

## Labour market

In July 2019, unemployment held near the all-time low. However, the labour force continued to contract (Chart 12). Surveys among employers pointed to a deteriorating sentiment in employment for the fourth month in a row. The composite PMI Index stood at 47.4 in July (SA), which is the lowest reading since May 2016 (Chart 13); however, the sentiment deterioration in industrial production halted temporarily (50.2 SA).

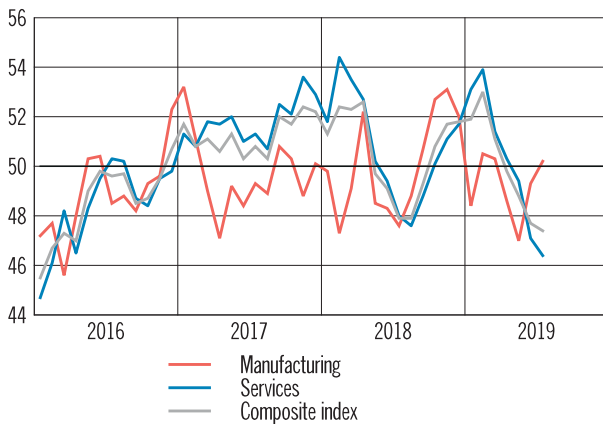
Rosstat's preliminary estimate suggests that in June and July 2019, growth in nominal wages accelerated to 7.7% and 8.2% respectively (Chart 14). This was associated with a shift

<sup>7</sup> In 2019 Q1, public investment contracted by 19.4% YoY. Detailed 2019 Q2 investment statistics will be released on 30 August 2019 and analysed in the September issue of the Monetary Policy Report.

<sup>8</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. Further, data on production and railway transportation of construction materials will be used instead of construction works to estimate monthly investment dynamics.

## PMI IN EMPLOYMENT (SA)

Chart 13

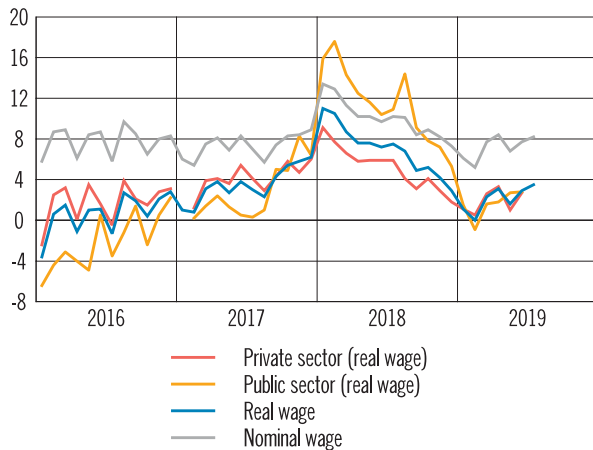


Source: IHS Markit.

## WAGES

Chart 14

Per cent change on corresponding period of previous year

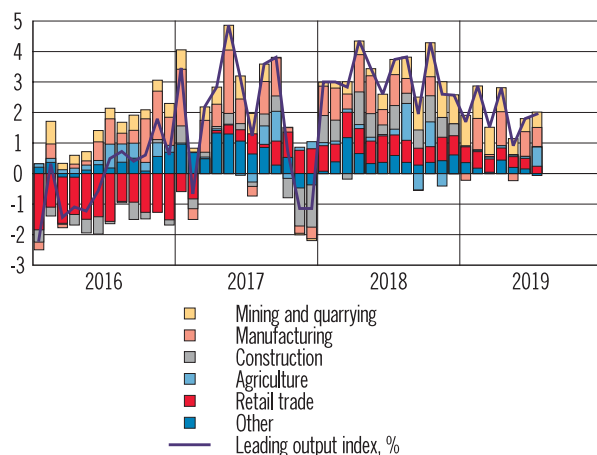


Sources: Rosstat, Bank of Russia calculations.

## LEADING OUTPUT INDEX

Chart 15

Contribution to annual growth, pp



Sources: Rosstat, Bank of Russia calculations.

in the period of bonus payments in the oil and gas sector. Nevertheless, annual growth of remuneration continued to fluctuate near the 2016-2017 average levels. In real terms, wages grew in June and July by 2.9% and 3.5% respectively. According to the Bank of Russia's estimates, they will grow in 2019 Q3 by 3.0-3.5% YoY.

## Forecast

The annual growth rate of the leading output index<sup>9</sup> continued to rise in July 2019 (Chart 15). Economic activity is expected to grow further in 2019 Q3.

Estimates suggest that the implementation of national projects and the increase in public investment will lead to an increase in GFCF growth to 0.5-1.0% in 2019 Q3. At the same time, consumer demand will continue to post moderate growth amid stagnant household income. Annual growth in final consumption expenditure of households is estimated at 1.2-1.7% in the third quarter. The Q3 GDP growth rate is forecast to range within 0.8-1.3%.

<sup>9</sup> The leading output index is a weighted average annual output growth rate of industrial production, agricultural output, construction services, freight turnover, and retail sales. Economic activities are determined as a ratio between their gross value added (GVA) in the corresponding quarter of the previous year and the total GVA for these sectors.

Data cut-off date – 19 August 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](mailto:svc_analysis@cbr.ru).

This commentary was prepared by the Monetary Policy Department.

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