



Bank of Russia



ECONOMY

No.8 (44) • August 2019

Information and analytical commentary

26 September 2019

Economy: Facts, Assessments and Comments (August 2019)

In 2019 Q2, annual GDP growth sped up to 0.9%, driven by improved dynamics of gross value added in wholesale trade and in real estate transactions. According to the macroeconomic statistics for July–August, production activity continued to go up in 2019 Q3. In August 2019, output increased across various groups of goods and services, which contributed to the industrial output growth. Agricultural output also continued to rise, although its annual growth rate was lower than in July. Investment and consumer demand growth in August remained moderate, as in the previous months. The Bank of Russia forecasts that GDP growth will come in at 0.8–1.3% in 2019 Q3.

CORE ECONOMIC INDICATORS

Table 1

(% growth on the same month of the previous year, unless indicated otherwise)

	2018	April 2019	May 2019	June 2019	2019 Q2	July 2019	August 2019
Output of goods and services by key industry	3.1	2.9	-0.3	2.0	1.6	2.6	...
Industrial output	2.9	4.6	0.9	3.3	3.0	2.8	2.9
Construction	5.3	0.0	0.2	0.1	0.1	0.2	0.3
Freight turnover	2.9	2.6	0.9	0.4	1.3	-1.1	-0.7
Agricultural output	-0.6	1.4	1.0	1.1	1.2	5.9	2.8
Retail turnover	2.8	1.8	1.5	1.6	1.6	1.1	0.8
Paid services to households	1.4	-0.2	-1.0	-2.1	-1.0	-2.7	-1.3
Unemployment rate, seasonally adjusted* (% of labour force)	4.8	4.7 / 4.6	4.5 / 4.6	4.4 / 4.6	4.6 / 4.6	4.5 / 4.6	4.3 / 4.5
Nominal wage	11.6	8.4	6.8	7.7	7.7	7.7	7.4
Real wage	8.5	3.1	1.6	2.9	2.6	3.0	3.0
Real household disposable money income	0.1	–	–	–	-0.2	–	–

* Bank of Russia's estimate.

Source: Rosstat.

GDP

The 2019 Q2 statistics on GDP confirmed Rosstat's preliminary estimate on annual GDP growth: it totalled 0.9% (as compared to 0.5% in 2019 Q1).

After its considerable reduction in 2019 Q1, gross value added (GVA) in real estate transactions increased, having thus become the major contributor to GDP dynamics among key industries (Chart 1).¹ The GVA decrease in wholesale and retail trade slowed down, among other factors, owing to rising natural gas exports. The dynamics in this segment improved because European consumers' demand switched from coal to gas fuel.

Oil production was restrained due to the OPEC+ agreements and the contamination

of the Druzhba pipeline.² In this context, the contribution of the mining and quarrying industry to annual GDP growth reduced. Net taxes on products substantially dropped (by 1.4% YoY, which is the worst dynamics since 2016 Q2). This was probably associated with the tax manoeuvre in the oil industry and the price downturn in Russia's energy exports.

Production activity

The upward trend in industrial output continued in August 2019 (Chart 2). Annual growth accelerated to 2.9% (as compared to 2.8% in July). The calendar effect put a downward pressure on industrial output. Adjusted for the calendar effect, output increased by 3.5% as compared to 2.2% in July (August 2019 had one

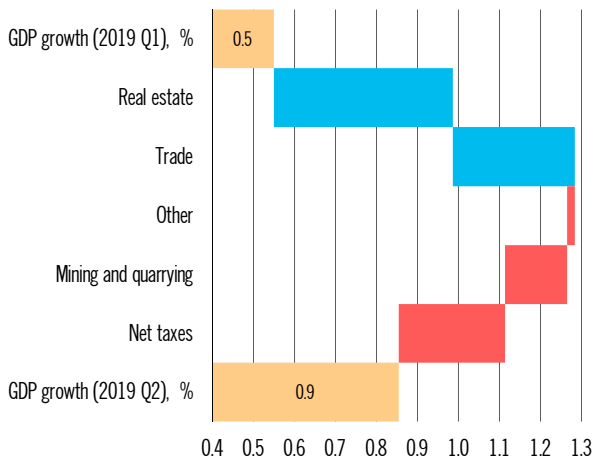
¹ GVA in real estate transactions shrank by 3.5% in 2019 Q1, which is the worst dynamics recorded.

² See *Monetary Policy Report, No. 3 (June 2019)* (hereinafter, MPR 3/19).

DECOMPOSITION
OF ANNUAL GDP GROWTH

Chart 1

Percentage points

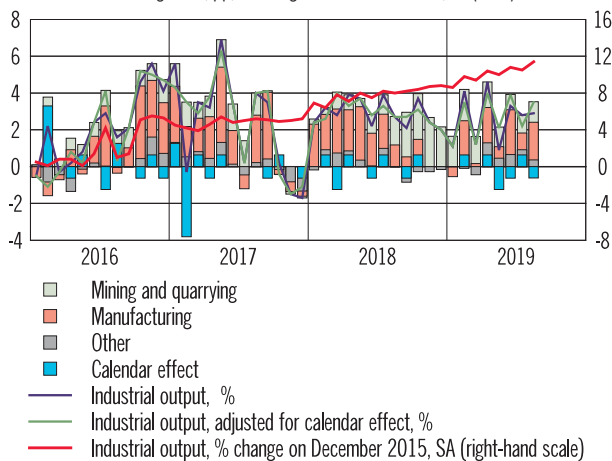


Sources: Rosstat, Bank of Russia calculations.

INDUSTRIAL OUTPUT

Chart 2

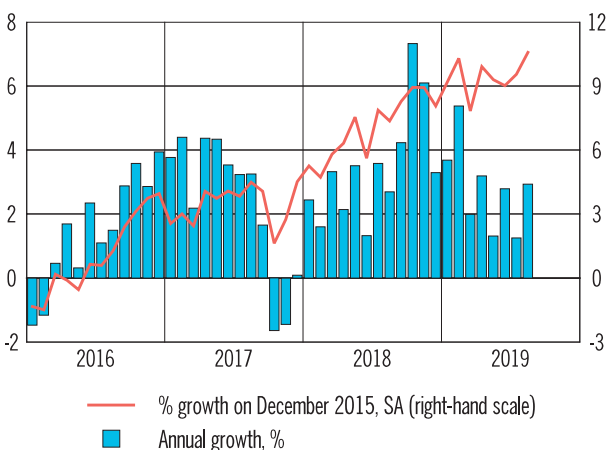
Contribution to annual growth, pp, % change on December 2015, SA (level)



Sources: Rosstat, Bank of Russia calculations.

RAW MATERIALS AND INTERMEDIATE GOODS

Chart 3



Sources: Rosstat, Bank of Russia calculations.

business day fewer than August 2018, while July was 1 business day longer than a year ago). Seasonally adjusted (SA) monthly industrial output improved (Chart 2) as a result of an expansion in output across various industries.

Raw material output. Monthly SA output in mining and quarrying continued to grow, primarily owing to an increase in oil production. As in July, production volumes in August considerably exceeded the OPEC+ quotas: oil companies were offsetting the production drop in May–June caused by the contamination of the Druzhba pipeline. In addition, mining of non-ferrous metal ores significantly accelerated. Their production increased, supported by growing external demand (see ‘Intermediate goods output’).

As in the previous months, the volumes of services provided in the mining and quarrying sector, primarily related to geological exploration, expanded. According to the estimates, the dynamics of these services will continue to positively influence the growth rate in mining and quarrying in September–October 2019.

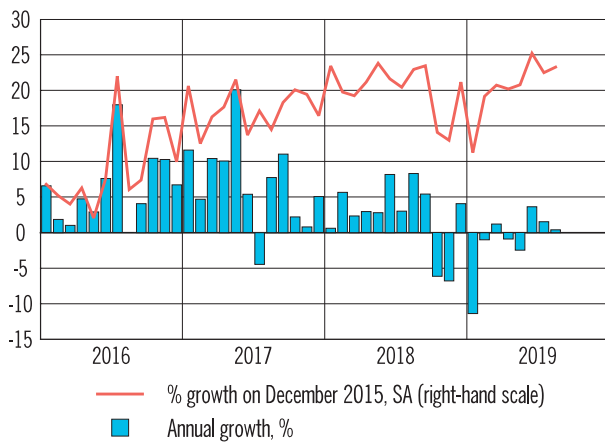
Intermediate goods output was up in August as compared to the previous month (SA). The upward trend in the output of these goods recorded since late 2018 thus continued (Chart 3). The output of petroleum products continued to grow amid the oil production increase. This trend supported the chemical industry where the output was also up across various categories, including rubber and plastic products. Growth in the metallurgical industry was moderate, being driven by the output of non-ferrous metals (against the backdrop of rising external demand for them) and nuclear fuel.³

Investment goods output. The output of investment goods maintained the upward trend observed in 2019. In August, its growth slightly accelerated (SA, against the previous month, Chart 4) owing to an increase in the output of electrical equipment, primarily accumulators. Their output was supported, among other factors, by the weakening of the ruble, which improved their price competitiveness as

³ In January–July 2019, export quantities of nickel were up by 8.3% and of aluminium – by 20.6%, as compared to the same period of the previous year.

INVESTMENT GOODS

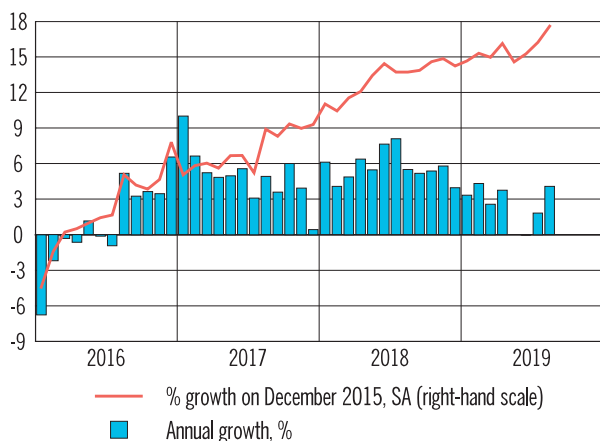
Chart 4



Sources: Rosstat, Bank of Russia calculations.

CONSUMER GOODS

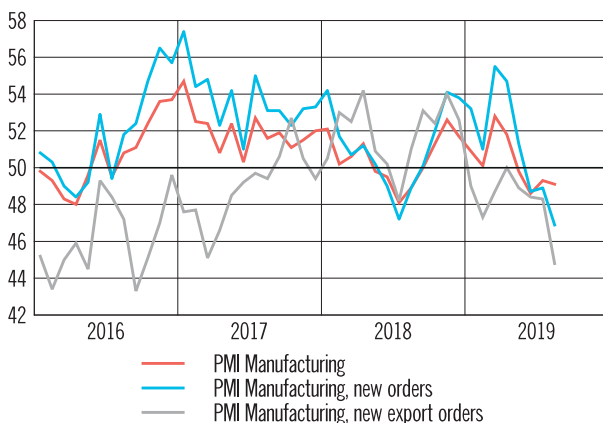
Chart 5



Sources: Rosstat, Bank of Russia calculations.

COMPANIES' ESTIMATES OF DEMAND FOR THEIR PRODUCTS

Chart 6



Source: IHS Markit.

compared to imported analogues. In contrast, the output of construction materials shrank, mainly due to the sectors focused on the domestic market.

Consumer goods output. The output of consumer goods increased in August 2019 (SA, Chart 5). In the context of good harvests of fruit and vegetables and of sunflower seeds, the output of products made from these, including oils and fats, canned fruits and vegetables, continued to grow. The potato processing volume significantly expanded. Among other factors, this was the result of the commissioning of a new plant in the Tyumen Region in July–August 2019. The output of meat products continued to moderately grow. The above factors restrained food inflation in August.⁴

As compared to the previous month, the output of non-food goods (SA) was up owing to an increased output of durable goods (household appliances, motor vehicles, furniture, and other finished goods) on the back of the improved dynamics of their retail sales in July 2019.⁵

Business surveys. Meanwhile, business surveys, as before, evidence that business activity in the Russian manufacturing sector continues to go down. As in the previous three months, IHS Markit PMI remained below 50.0 in August.⁶ According to the study, the deterioration of the market situation was caused by a reduction in new orders, which became the largest since May 2015. Export orders declined most notably due to a weak external demand and loss of key clients.

According to Rosstat's Business Confidence Index (SA), in August business activity in manufacturing remained at the level of the previous month (while the mining and quarrying sector demonstrated growth). Companies noted insufficient demand for their products in the domestic market, high taxes and economic

⁴ For more details, refer to the informational and analytical commentary 'Consumer Price Dynamics' (No 8 (44), August 2019).

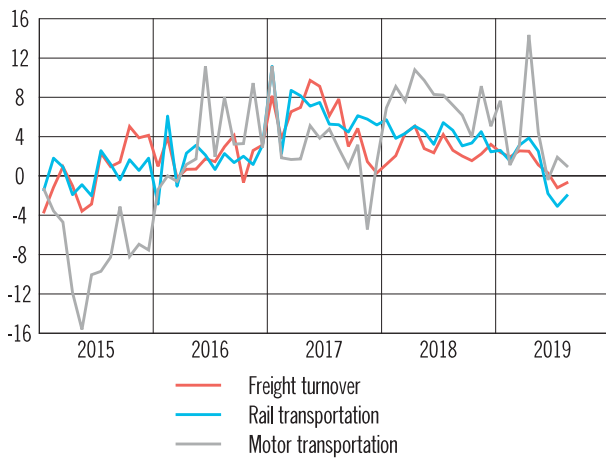
⁵ In July, sales of washing machines rose by 9.0%, of furniture – by 8.5%, YoY. According to the Association of European Businesses, the annual rate of reduction in sales of cars and commercial vehicles slowed down to 2.4% in July.

⁶ Purchasing Managers' Index. For more details, refer to www.markiteconomics.com/public.

FREIGHT TURNOVER

Chart 7

% change on the same month of the previous year



Source: Rosstat.

INVESTMENT ACTIVITY INDICATORS

Chart 8

% change on the same period of the previous year

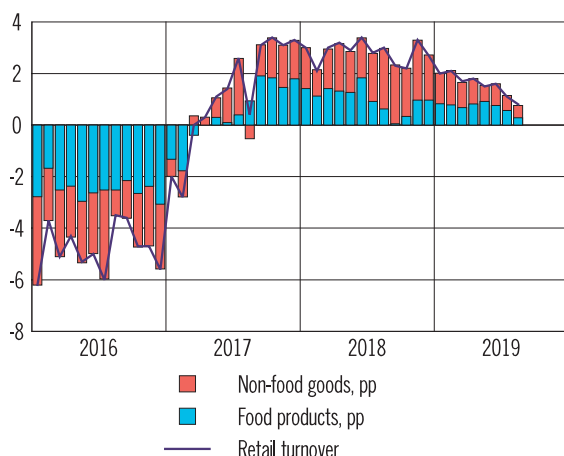


Sources: Rosstat, FCS, Bank of Russia calculations.

RETAIL TURNOVER

Chart 9

% change on the same month of the previous year



Sources: Rosstat, Bank of Russia calculations.

uncertainties among the factors containing output growth.

Agriculture. As expected, annual growth of Russia's agricultural output slowed down in August to 2.8%. This was the result of the earlier grain harvest in 2019. However, experts estimate that the gross yield of grain by the end of the year can exceed the harvest of 2018 by 4–7%. The output of meat products (primarily, pork products) maintains a sustainable upward trend.

Transport. As in June–July, rail transportation contracted in August 2019 on a year-on-year basis. Rail transportation of coal and ferrous metals continued to shrink; the output of these products declined. The dynamics of the aggregate indicator were also adversely affected by a reduction in sea and air cargo transportation. However, motor and pipeline transportation slightly expanded.

Investment activity

As in the previous months, the leading indicators of investment activity in August 2019 evidenced that fixed capital investment growth remained quite low. The output and imports of investment goods were close to the readings recorded last August. The substantial increase in construction material transportation on a year-on-year basis is explained by the base effect. Given the above, fixed capital investment growth in 2019 Q3 may come in at 0.3–0.8%, which is close to the Q1–Q2 levels.

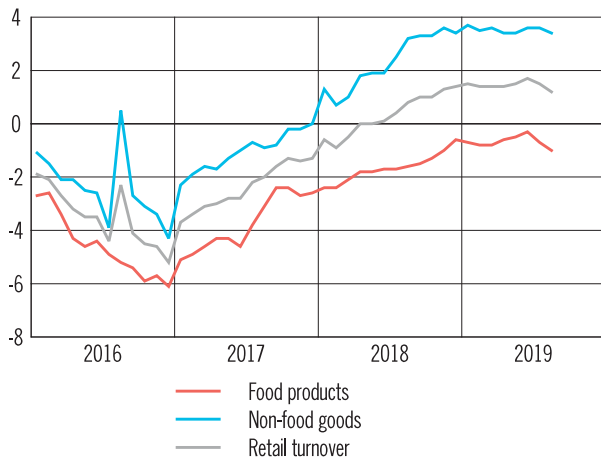
Consumption and savings

In August 2019, consumer demand remained moderate. This was evidenced by the persisting slowdown in annual retail turnover growth. It declined to 0.8%, which is its lowest value since September 2017 (Chart 9). The dynamics of food sales deteriorated most noticeably. As in July, month-on-month food sales (SA) decreased (Chart 10). The reduction in food retail sales amid a significant growth of the output in this category of products is in line with the customs statistics showing that food imports demonstrate a downward trend (while exports sustainably rise).

RETAIL TURNOVER

Chart 10

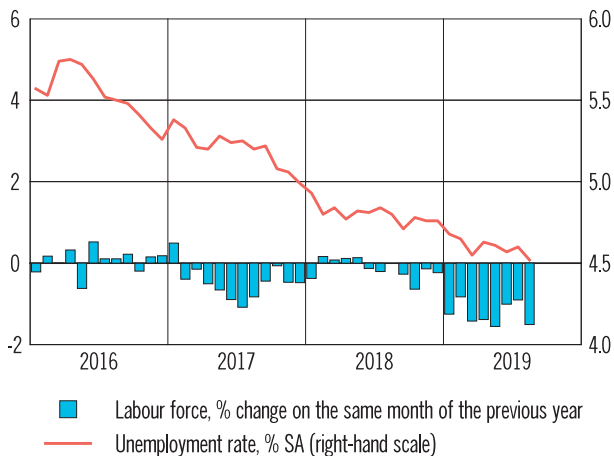
% growth on December 2015, SA



Sources: Rosstat, Bank of Russia calculations.

UNEMPLOYMENT RATE AND LABOUR FORCE

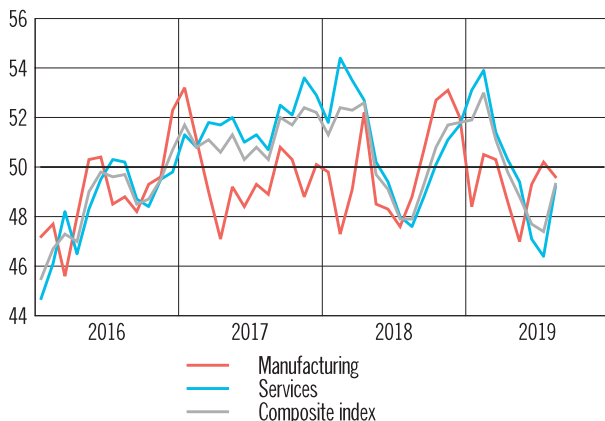
Chart 11



Sources: Rosstat, Bank of Russia calculations.

PMI IN EMPLOYMENT (SA)

Chart 12



Source: IHS Markit.

Labour market

In August 2019, the unemployment rate (SA) stayed close to its all-time low. However, the labour force continued to contract (Chart 11). Surveys among employers evidenced that sentiment regarding employment continued to go down for the fifth consecutive month. Meanwhile, the composite employment PMI rose to 49.3 in August (Chart 12), which may be a sign of a slight improvement of the situation in the labour market.

According to Rosstat's preliminary estimate, in this context nominal wages increased in July and August 2019 by 7.7% and 7.4% respectively (Chart 13). Wages across sectors and economic activities rose relatively uniformly. Annual growth of labour remuneration continued to fluctuate near the 2016–2017 average readings. Real wages in July and August were up by 3.0%. They are expected to grow in 2019 Q3 by 3.0–3.5% YoY.

Forecast

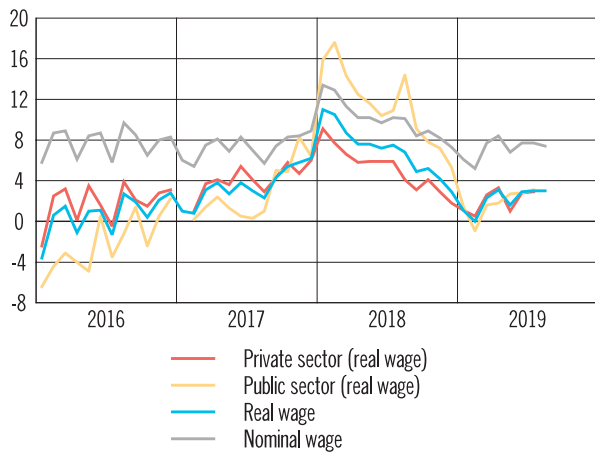
In July–August 2019, the dynamics of the leading output index remained stable (Chart 14).⁷ Its annual growth during these months was close to the April–June average. GDP growth is forecast to range within 0.8–1.3% in Q3, as was stated in MPR 3/19.

⁷ The leading output index is the weighted average annual output growth rate across industries: output in production and manufacturing, agricultural output, construction services, freight turnover, and retail turnover. The weight of an industry is calculated as the ratio of its GVA in the corresponding quarter of the previous year to the total GVA for the above industries.

WAGE

Chart 13

% change on the same month of the previous year

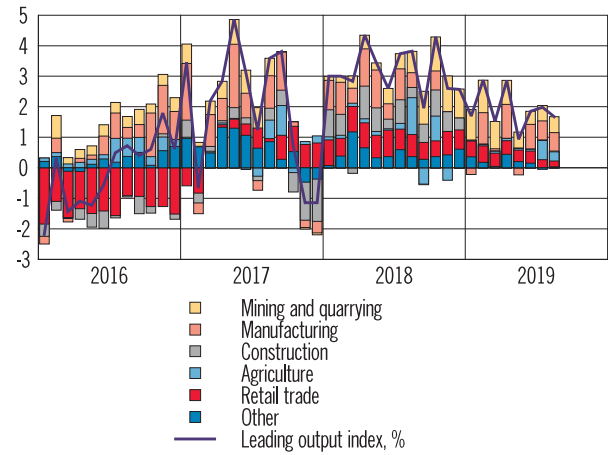


Sources: Rosstat, Bank of Russia calculations.

LEADING OUTPUT INDEX

Chart 14

Contribution to annual growth, pp



Sources: Rosstat, Bank of Russia calculations.

Data cut-off date – 18 September 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.

This commentary was prepared by the Monetary Policy Department.

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