



Bank of Russia



ECONOMY

No. 9 (45) • September 2019

Information and analytical commentary

25 October 2019

Economy: Facts, Assessments and Comments (September 2019)

In September 2019, growth of industrial output adjusted for seasonal and calendar effects slightly declined after its acceleration in the previous month. However, the upward trend in output across a wide range of industrial products continued in 2019 Q3. Agricultural output demonstrated a significant growth rate, driven, among other things, by a richer harvest this year. Investment and consumer demand growth in September remained moderate, as in the previous months. The expansion of production amid slower growth of domestic demand could speed up inventory accumulation in 2019 Q3. Exports declined to a lesser extent than in the previous quarter; yet, a slowdown in the world economy will restrain export dynamics in the future. As estimated, GDP growth in 2019 will total 0.8–1.3%.

CORE ECONOMIC INDICATORS

Table 1

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

	2018	Q2 2019	July 2019	August 2019	September 2019	Q3 2019
Output of goods and services by key industry	3.1	1.7	2.5	2.2
Industrial output	2.9	3.0	2.8	2.9	3.0	2.9
Construction	5.3	0.1	0.2	0.3	0.8	0.5
Freight turnover	2.9	1.3	-1.1	-0.6	-0.2	-0.6
Agricultural output	-0.2	1.2	6.2	3.4	5.6	5.1
Retail turnover	2.8	1.6	1.1	0.8	0.7	0.8
Paid services to households	1.4	-1.0	-2.7	-1.3	1.2	...
Unemployment rate, seasonally adjusted* (% of labour force)	4.8	4.6 / 4.6	4.5 / 4.6	4.3 / 4.6	4.5 / 4.7	4.4 / 4.6
Nominal wage	11.6	7.7	7.7	6.8
Real wage	8.5	2.6	3.0	2.4
Real household disposable money income	0.1	-0.1	-	-	-	3.0

* Bank of Russia estimate.

Source: Rosstat.

GDP

Actual data on individual GDP expenditure components in 2019 Q2 substantially differed from the Bank of Russia's estimates published in September in its Monetary Policy Report (hereinafter, MPR 3/19). There was a significant divergence between the actual and forecast export dynamics and household final consumption expenditure (Table 2).

Affected by both short- and long-term factors, export quantities contracted more than expected. The major contributor to the export reduction in Q2 was the dynamics of international trade of crude oil and petroleum products, which largely resulted from the incident on the Druzhba pipeline¹ (Table 3). The impact of this

GDP COMPONENTS BY EXPENDITURE IN 2019 Q2

Table 2

(% change on the same quarter of the previous year)

	Estimate (MPR 3/19)	Actual	Divergence, pp
GDP	0.9	0.9	-
Final consumption expenditure	1.0–1.5	2.1	0.6–1.1
– households	1.5–2.0	2.8	0.8–1.3
Gross capital formation	-(0.0–0.5)	3.1	3.1–3.6
– Tier 1 capital	-(0.5–1.0)	1.0	1.5–2.0
Exports	-(0.3–0.8)	-4.9	-(4.1–4.6)
Imports	-(1.0–1.5)	0.1	1.1–1.6

Sources: Rosstat, Bank of Russia estimates.

¹ Refer to the information and analytical commentary *Economy* (No. 8 (44), August 2019).

EXPORTS OF INDIVIDUAL GOODS

Table 3

(contribution to annual growth of goods export quantities, pp)

	April 2019	May 2019	June 2019	July 2019	August 2019
Oil	-4.5	-2.2	-1.6	3.2	2.3
Petroleum products	-1.1	-1.9	-3.3	-2.4	-3.3
Wheat	-0.9	-1.6	-1.1	-0.5	0.1
Semi-finished iron and steel goods	-0.4	-0.4	-0.3	-0.2	-0.3
Diamonds	-0.2	0.1	-0.6	-0.2	-0.1
Flat iron and steel products	-0.2	-0.1	-0.3	0.2	-0.2
Ferrous metal pipes	-0.2	-0.3	0.0	0.4	0.7

Sources: Federal Customs Service, Bank of Russia calculations.

temporary factor exhausted in July–August, and oil exports increased on a year-on-year basis. The decline in wheat exports in April–June was caused by the fact that the output of the last crop year was smaller than the year before. This season's harvest is expected to exceed last year's output (refer to the section 'Agriculture'); and as it is supplied to the market, grain exports will increase.² This will support exports at the end of 2019 and next year. However, growth of Russia's grain exports will be limited because foreign producers are expanding grain supply in the world market.

The decrease in ferrous metal exports may continue for a longer period amid the contraction of external demand for metals due to the slowdown in the world economy.

Growth of household final consumption expenditure significantly sped up in 2019 Q2, exceeding the Bank of Russia's estimates; yet this increase can be temporary. This is evidenced by moderate growth of the main consumer demand indicators, including retail turnover, the value of paid and financial services, as well as spending of the population abroad and in foreign online stores (Chart 1). Therefore, growth of household final consumption expenditure sped up owing to other components. Its estimated contribution to the increase in household final consumption expenditure reduced in Q3.

Growth of gross capital formation substantially diverged from the forecast, primarily due to a higher than expected increase in inventories demonstrating more volatile dynamics. Amid a notable rise in gross capital formation and household final consumption expenditure, growth of imports also exceeded expectations.

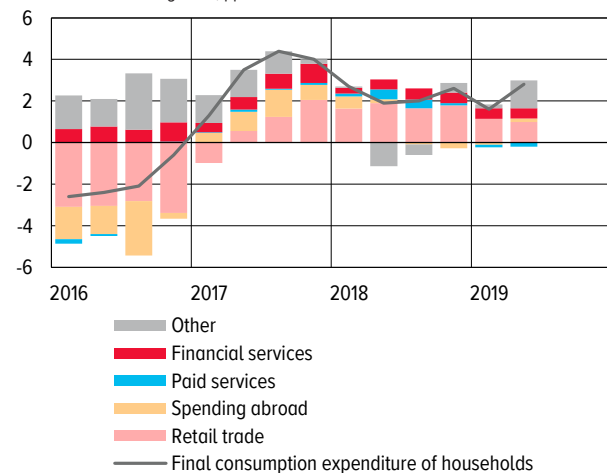
Production activity

In 2019 Q3, the annual growth rate of industrial output remained close to the Q2 reading (Table 1). As compared to the previous period, the seasonally adjusted (SA) upward trend in industrial output continued. However, September 2019 saw a slight slowdown of growth

FINAL CONSUMPTION EXPENDITURE OF HOUSEHOLDS

Chart 1

Contribution to annual growth, pp

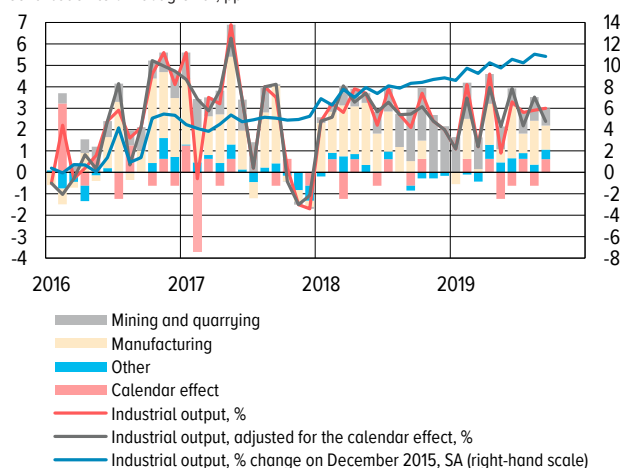


Sources: Rosstat, Bank of Russia calculations.

INDUSTRIAL OUTPUT

Chart 2

Contribution to annual growth, pp

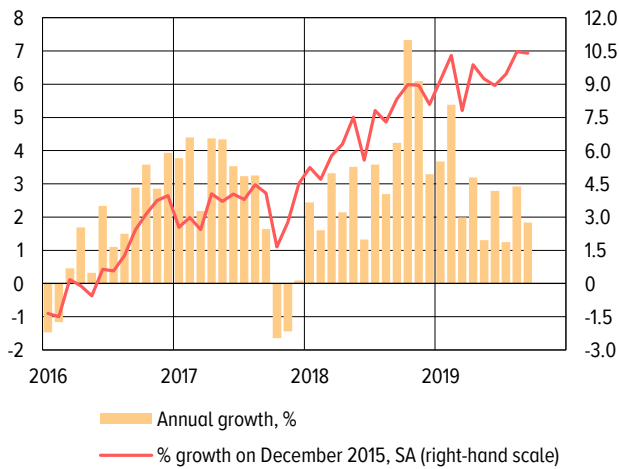


Sources: Rosstat, Bank of Russia calculations.

² Russia's Ministry of Agriculture forecasts that grain exports in the 2019/2020 season will increase by 3.9% to 45 million tons.

RAW MATERIALS AND INTERMEDIATE GOODS

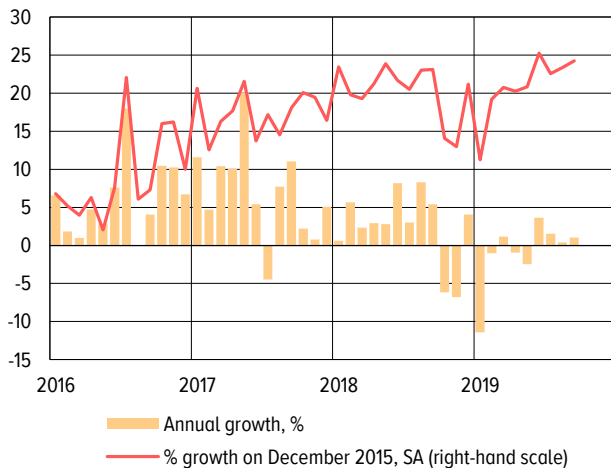
Chart 3



Sources: Rosstat, Bank of Russia calculations.

INVESTMENT GOODS

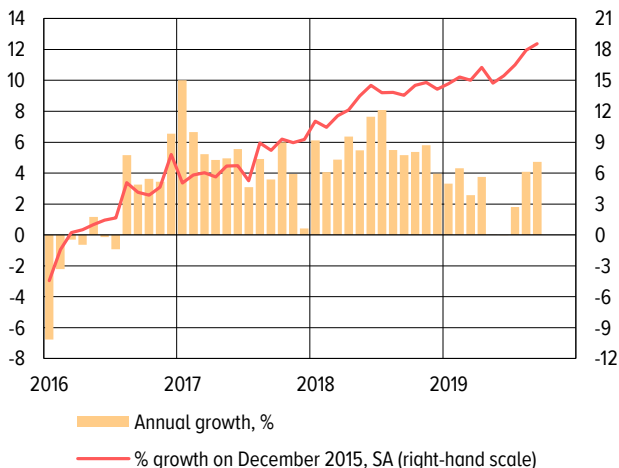
Chart 4



Sources: Rosstat, Bank of Russia calculations.

CONSUMER GOODS

Chart 5



Sources: Rosstat, Bank of Russia calculations.

in the industrial sector: the annual growth rate adjusted for calendar effects dropped to 2.4% (vs 3.5% in August) (Chart 2). Month-on-month, industrial production (SA) shrank because of the downward adjustment of the output of raw materials and intermediate goods.

Raw material output. In September 2019, mining volumes (SA) contracted month-on-month. This was largely the result of reduced oil production after its increase in July–August 2019 to compensate for the underproduction entailed by the incident on the Druzhba pipeline. The downward trend in gas production persisted. This is explained by weak demand in Europe associated with record large gas volumes in gas holders.

The production of other minerals increased. Thus, the output of marble and gravel was up as the urban improvement works continued in the country's major cities.

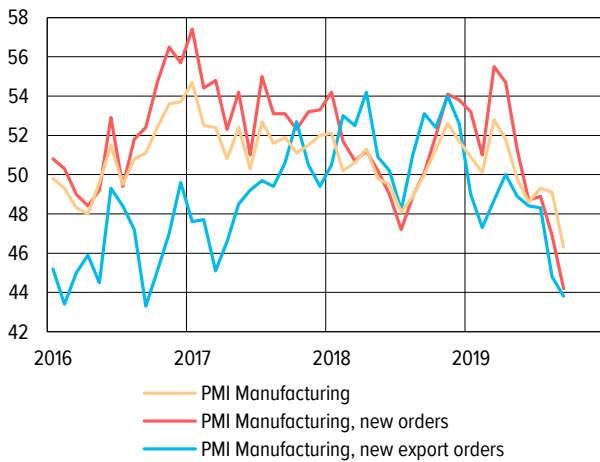
Intermediate goods output. In September 2019, the seasonally adjusted output of intermediate goods, as well as that of raw materials, slightly shrank as compared to the previous month (Chart 3). The output of petroleum and rubber products decreased amid the decline in oil production. As in the previous months, the metal industry experienced diverse trends: the output of ferrous metals (cast iron, rolled products, pipes) contracted, while non-ferrous metal production continued to expand amid a continuing increase in external demand for Russian non-ferrous metals.

Investment goods output. The upward trend in investment goods output observed since the beginning of the year continued in September (Chart 4). Engineering products were the main contributor to the production increase – the output of electrical equipment was up as in the previous month. However, growth of construction materials output observed since early 2019 slightly slowed down.

Consumer goods output. The upward trend in consumer goods output (SA) continued (Chart 5). It was driven by the output of food products, primarily in the animal product processing sector. There was a significant increase in the output of meat products (pork, sausages, and canned meat) and dairy products

COMPANIES' ESTIMATES OF DEMAND
FOR THEIR PRODUCTS

Chart 6

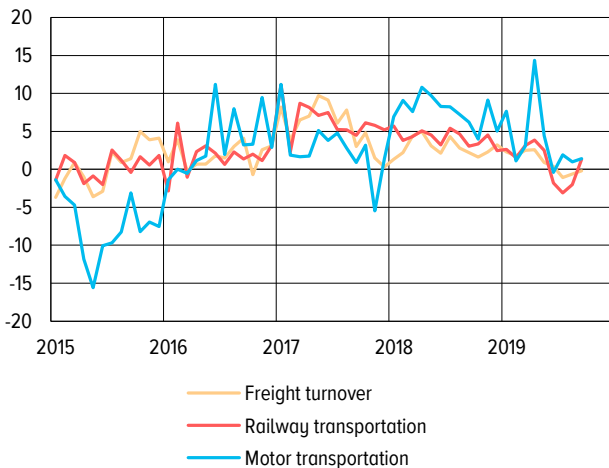


Source: IHS Markit.

FREIGHT TURNOVER

Chart 7

% change on the same month of the previous year

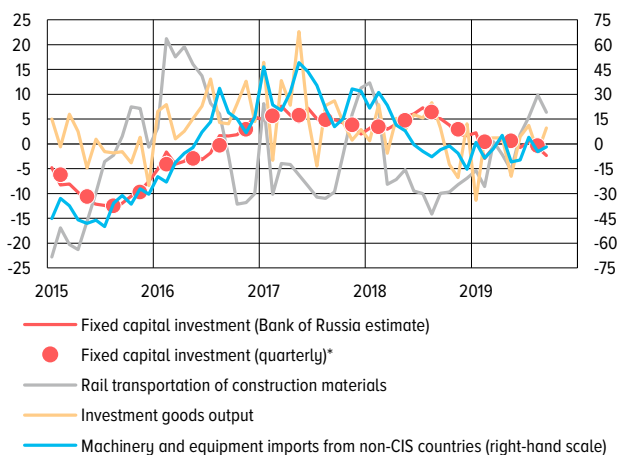


Source: Rosstat.

INVESTMENT ACTIVITY INDICATORS

Chart 8

% change on the same month of the previous year



* 2019 Q3 – Bank of Russia estimate.

Sources: Rosstat, FCS, Bank of Russia calculations.

(cheese). The expansion of food supply restrained growth of prices in this product category.³

Growth of non-food goods output (SA) came to a halt, largely due to a decrease in the output of vehicles and household appliances.

Business surveys. In September 2019, IHS Markit PMI⁴ for the manufacturing sector demonstrated the largest drop over 10 years, going down to 46.3 (Chart 6). According to the study, the deterioration of the market situation was caused by a reduction in new orders and client attrition. External demand showed the most significant decline. The decrease in new export orders was the worst since October 2016. By contrast, IHS Markit PMI for the service sector was up in September, primarily driven by a larger volume of new orders.

Rosstat's Business Confidence Indices both in mining and quarrying and in manufacturing demonstrated growth (SA) in September. Yet, the balance of the estimates of demand for manufacturing industry products in September remained at the level recorded in the previous month. Such a considerable divergence in the business environment estimates was apparently associated with the difference in the sample of surveyed companies.

Agriculture. In September 2019, the annual growth rate of agricultural output rose to 5.6%. Moreover, growth of agricultural output in 2019 Q3 exceeded the Bank of Russia's expectations (it had been previously assumed that its growth rate sped up in July 2019 largely because of a temporary factor – earlier harvesting).⁵ According to current expert estimates, the total output of various crops, including grains, sunflower, sugar beet, and greenhouse vegetables, is expected to increase. The output of meat products (primarily, pork products) also continues to grow.

Transport. Rail transportation expanded in September 2019 on a year-on-year basis, after its contraction in June–August (Chart 7). This

³ Refer to the information and analytical commentary *Consumer Price Dynamics (No 9 (45), September 2019)*.

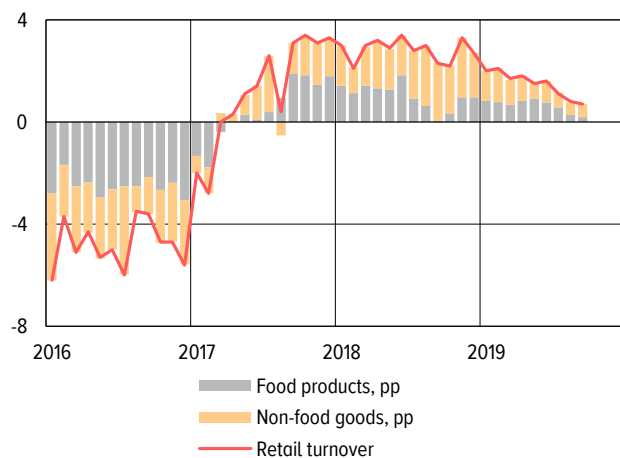
⁴ *Purchasing Managers' Index*. For more details refer to www.markiteconomics.com/public.

⁵ Refer to the information and analytical commentary *Economy (No. 7 (43), July 2019)*.

RETAIL TURNOVER

Chart 9

% change on the same month of the previous year

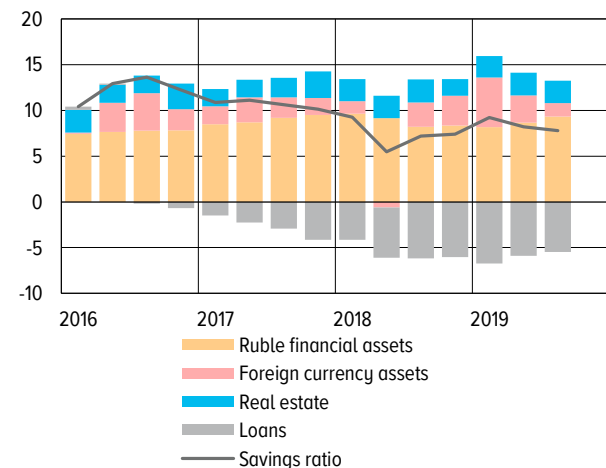


Sources: Rosstat, Bank of Russia calculations.

SAVINGS RATIO

Chart 10

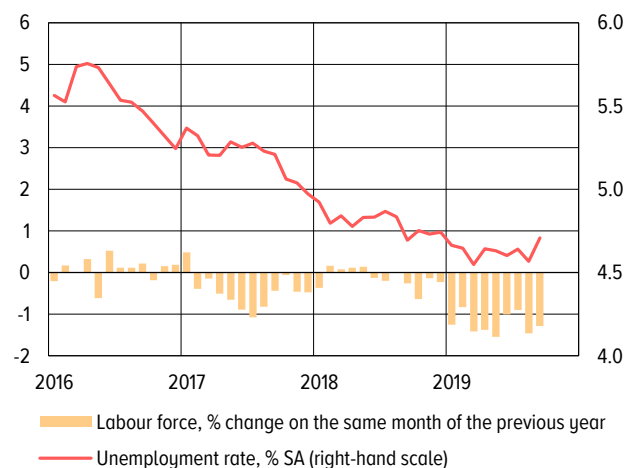
Percentage of household disposable spending (SA)



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

UNEMPLOYMENT RATE AND LABOUR FORCE

Chart 11



Sources: Rosstat, Bank of Russia calculations.

was largely driven by growth of coal and iron ore transportation. However, the output of ferrous metals and coal continued to decline in September, and therefore the increase in rail transportation could turn out to be temporary. Water and pipeline transportation shrank, which had an additional adverse impact on the overall dynamics. However, motor and air transportation expanded.

Investment activity

In September, leading indicators of investment activity, as before, evidenced a slow increase in fixed capital investment. The output and imports of investment goods were close to the readings recorded last September. Growth of construction material transportation slightly decelerated, which was caused, among other things, by the end of the low-base effect. Given the above, fixed capital investment growth in 2019 Q3 is expected to come in at 0.3–0.8%, which is close to the Q1–Q2 levels (Chart 8).

Consumption and savings

In September 2018, annual retail turnover growth continued to drop (to 0.7%, which is its lowest value since September 2017) (Chart 9). Although incomes increased (refer to the section 'Labour market and household income'), consumer demand remained moderate. Growth in consumer lending slowed down, while the inflow of household deposits remained high.⁶ In these conditions, the savings ratio in 2019 Q3 was above the level recorded in 2018 Q3.

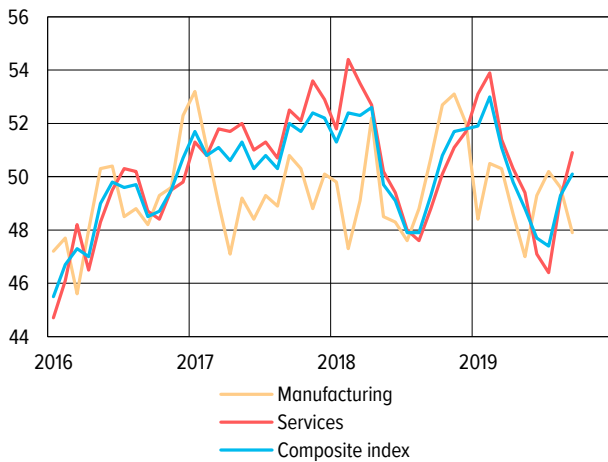
Moreover, consumer sentiment improved in Q3, which is evidenced by the results of Rosstat's consumer sentiment survey and inFOM's surveys.⁷ Consumer confidence growth may support household demand in 2019 Q4.

⁶ Refer to the information and analytical material *Russian Banking Sector Developments in January–September 2019*.

⁷ inFOM studies *Inflation Expectations and Consumer Sentiment as Measured Based on Household Surveys* commissioned by the Bank of Russia.

PMI IN EMPLOYMENT (SA)

Chart 12



Source: IHS Markit.

Labour market and household income

The unemployment rate (SA) rose to 4.7% in September, which is its highest level since January 2019. This happened in the conditions of a faster-than-expected reduction in the number of the working population as compared to the percentage of unemployed people. In this context, the workforce in general continued to decrease (Chart 11). The deterioration of the employment situation was reported by manufacturing companies surveyed by IHS Markit (Chart 12). Contrastingly, the survey showed that the employment rate ceased to drop in the service sector and the economy in general.

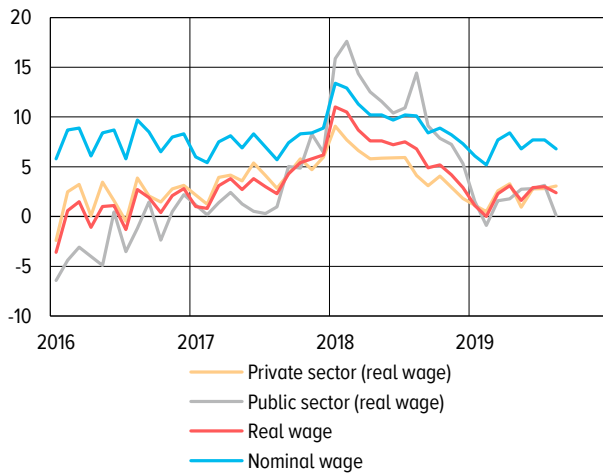
The annual growth rate of nominal wages declined to 6.8% in August⁸ 2019 (as compared to 7.7% in July), affected by the dynamics of labour remuneration in the public sector (Chart 13). This slowdown was associated with the base effect and was temporary: in August 2018, wages in the social and cultural sectors increased in accordance with the Russian President's May decrees.⁹

In contrast, growth of employment income, including labour remuneration paid to those employed by individual entrepreneurs, considerably sped up in Q3. In this context, the annual growth rate of real disposable household income rose to 3.0%, which is its highest reading since 2014 (Chart 14).

WAGE

Chart 13

% change on the same month of the previous year

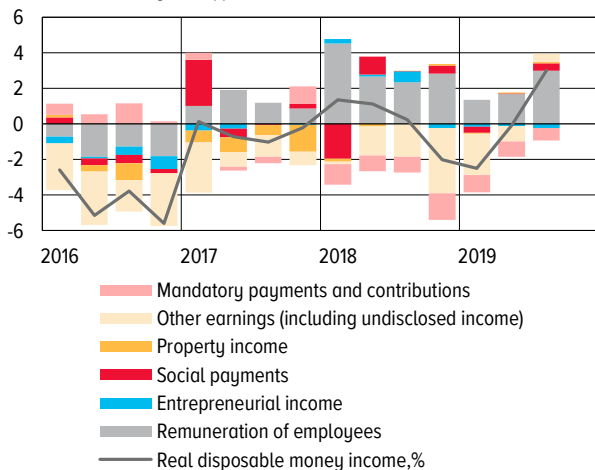


Sources: Rosstat, Bank of Russia calculations.

REAL HOUSEHOLD DISPOSABLE MONEY INCOME

Chart 14

Contribution to annual growth, pp



Sources: Rosstat, Bank of Russia calculations.

Forecast

According to the currently available macroeconomic statistics for July–September, economic growth accelerated in 2019 Q3, partially driven by temporary factors.

As before, the Bank of Russia expects that GDP growth will total 0.8–1.3%. The 2019 forecast of GDP components by expenditure slightly changed,¹⁰ which was primarily associated with the issue of actual data for 2019 Q2.

⁸ Rosstat ceased to publish its assessment of wage growth for the previous month.

⁹ Refer to the information and analytical commentary *Economy* (No. 9 (33), September 2018).

¹⁰ Refer to the Bank of Russia's medium-term forecast released in the follow-up to the Board of Directors key rate meeting held on 25 October 2019.

Data cut-off date – 17.10.2019.

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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