



Банк России



ECONOMY

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Information and analytical commentary

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Economy: Facts, Assessments and Comments (November 2019)

Rosstat confirmed the preliminary annual GDP growth estimate for the third quarter of 2019 at 1.7%. Production increased mainly thanks to wholesale trade, agriculture and manufacturing. Economic expansion slowed in November 2019. The annual industrial production growth rate declined on the back of manufacturing. Survey results also point to a worsening of the economic environment. In November, the leading indicators of investment activity demonstrated lower fixed capital investment year-on-year. At the same time, agricultural production increased. Retail sales grew amid optimistic trends in real wages. In 2019, the GDP growth rate will likely be close to the upper bound of the Bank of Russia forecast of 0.8–1.3%. This is primarily related to higher than expected annual GDP growth in Q3 and output growth in key industries in early Q4.

CORE ECONOMIC INDICATORS
(growth, % YoY, unless indicated otherwise)

Table 1

	2017	2018	Q1 2019	Q2 2019	Q3 2019	October 2019	November 2019
Output of goods and services by key industry	2.4	3.1	0.9	1.7	2.7	3.1	...
Industrial output	2.1	2.9	2.1	3.0	2.9	2.6	0.3
Construction	-1.2	5.3	0.2	0.1	0.5	1.0	0.2
Freight turnover	5.6	2.9	2.2	1.3	-0.6	0.0	-1.5
Agricultural output	2.9	-0.2	1.1	1.2	5.1	5.2	5.8
Retail turnover	1.3	2.8	1.9	1.6	0.9	1.7	2.3
Paid services to households	0.2	1.4	-0.6	-1.0	-0.6	-0.5	-0.6
Unemployment rate, seasonally adjusted* (% of labour force)	5.2	4.8	4.8/4.6	4.6/4.6	4.4/4.6	4.6/4.6	4.6/4.6
Nominal wage	6.7	11.6	6.5	7.7	7.4	7.7	...
Real wage	2.9	8.5	1.3	2.6	3.0	3.8	...
Real household disposable money income	-0.5	0.1	-2.2	0.9	3.3	-	-

* Bank of Russia estimate.

Source: Rosstat.

GDP

Rosstat confirmed the preliminary annual GDP growth estimate for the third quarter of 2019 at 1.7% (vs 0.9% in Q2; Chart 1).

The increase in production was mainly driven by the trend in the gross value added (GVA) in wholesale trade, which registered 4.1% growth YoY after a drop of 1.9% in 2019 Q2. It was also affected by higher output growth in agriculture owing to a better harvest and further expansion of livestock production. GDP trends were also driven by accelerating GVA growth in manufacturing in the third quarter, which was mainly caused by an expansion of production of consumer goods (food products and medicines) and chemicals.

At the same time, GVA contraction in transportation and storage negatively influenced output trends in 2019 Q3. This was largely caused by a decline in the railway transportation

of certain Russian export goods (primarily, coal and ferrous metals). Additionally, GDP trends were affected by a slowdown in mining and quarrying output growth, including due to the high base effect.¹ In particular, the growth of gas production has contracted this year amid weak demand in Europe due to record high volumes of gas in storage.

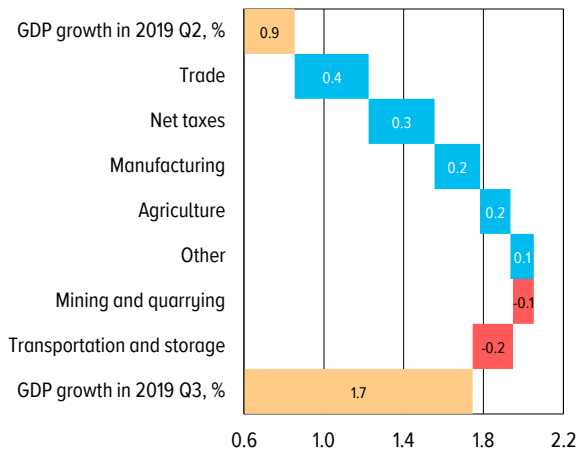
Production activity

November 2019 saw a significant slowdown in annual industrial production growth, to 0.3% vs 2.6% in October (0.9% adjusted for calendar effects; see Table 1 and Chart 2), due to the high base effect of the previous year among other factors. Compared to the previous month (seasonally adjusted, SA), a slight contraction in output was observed due to trends in

¹ In 2018 Q3, GVA growth in mining and quarrying surged by 2.8 pp, to 4.7% YoY.

DECOMPOSITION OF CHANGES IN ANNUAL GDP GROWTH *Chart 1*

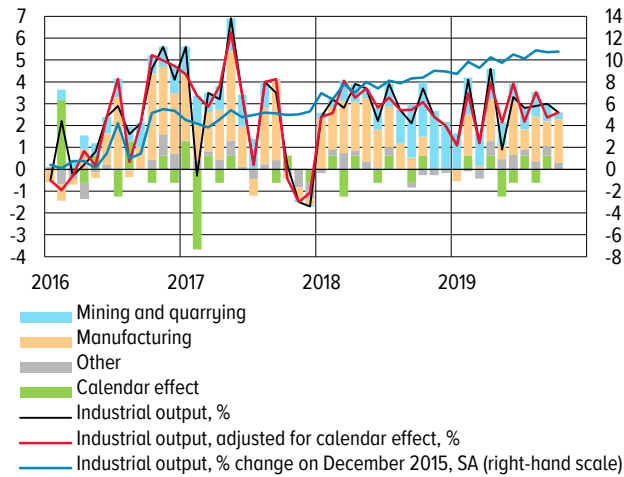
Contribution to annual growth, pp



Sources: Rosstat, Bank of Russia calculations.

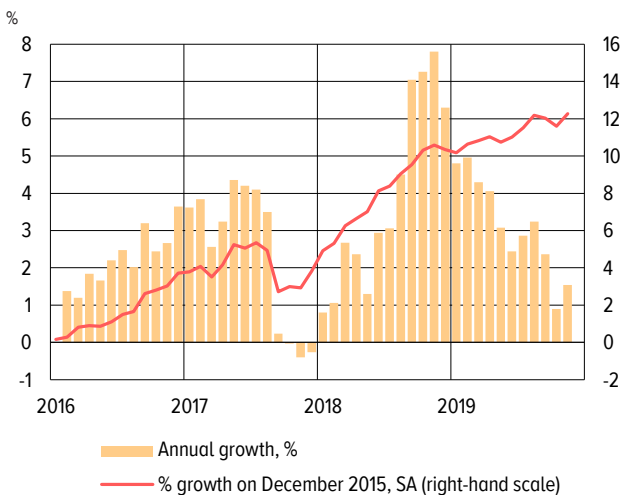
INDUSTRIAL OUTPUT *Chart 2*

Contribution to annual growth, pp



Sources: Rosstat, Bank of Russia calculations.

RAW MATERIALS *Chart 3*



Sources: Rosstat, Bank of Russia calculations.

manufacturing. At the same time, the trends in the output of goods meant to satisfy household and construction demand were positive amid the overall decline.

Raw material output. November 2019 saw an increase in the annual growth of mining and quarrying output after a contraction in September and October (Chart 3). At the same time, seasonally-adjusted growth resumed on the back of expanded natural gas production. Gas production will be supported in the future by the start of gas deliveries to China via the Power of Siberia pipeline.

The output of mineral products, excluding fuel and energy products, was supported by the increased production of non-ferrous metals and certain other minerals (diamonds, edible salt), as well as certain types of raw materials used to produce construction materials on the back of growing demand.

Weakening external demand and falling global prices of many commodities compared to 2018 (oil and other energy commodities, coal) caused a decline in domestic producers' prices of raw materials. In November, this decline slowed down a little amid expanding demand. However, prices remained 16.2% lower than in the previous year.

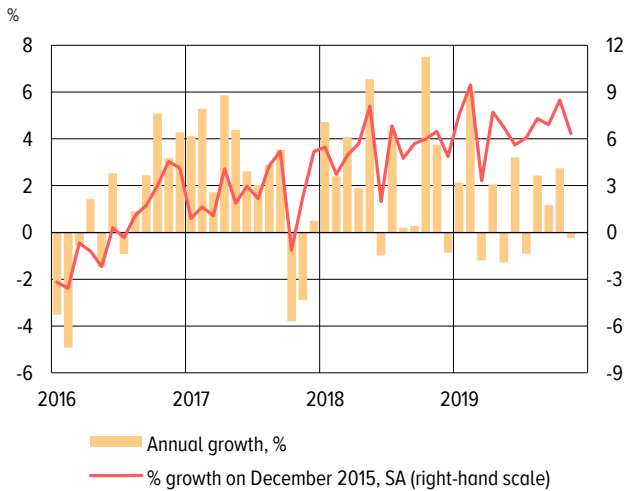
Intermediate goods output. In November 2019, the seasonally-adjusted output of intermediate goods contracted as compared to the previous month (Chart 4). The decline in metallurgical output continued amid weak external demand, which was reflected in the weak trends in ferrous metal exports. A slowdown in oil extraction in the previous months caused a contraction in oil refining volumes. This, in turn, led to lower chemical production.

At the same time, metallurgic companies increased the output of products primarily dedicated to the construction industry. Weak growth also continued to prevail in the woodworking and cellulose production industries.

Constraints on domestic and external demand influenced the price trends for producers of intermediate goods. In November, as in the previous three months, they were lower than the previous SA year (by 12.6%, according to estimates).

INTERMEDIATE GOODS

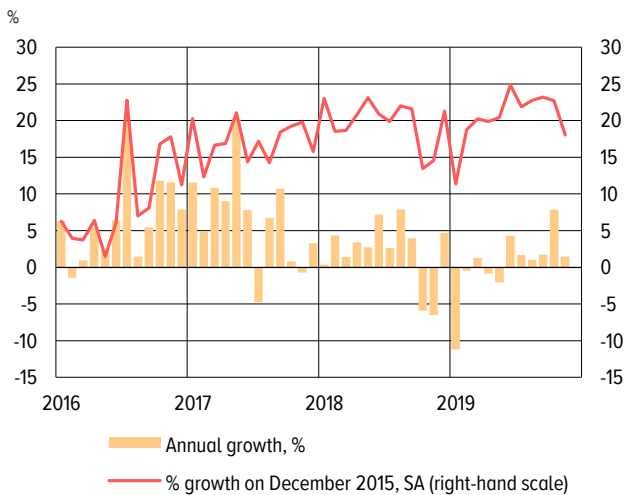
Chart 4



Sources: Rosstat, Bank of Russia calculations.

INVESTMENT GOODS

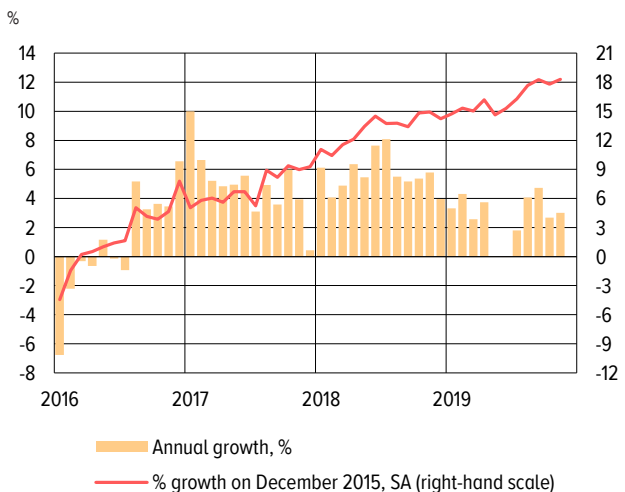
Chart 5



Sources: Rosstat, Bank of Russia calculations.

CONSUMER GOODS

Chart 6



Sources: Rosstat, Bank of Russia calculations.

Investment goods output. November 2019, saw a decline in the seasonally-adjusted output of investment goods (Chart 5), primarily due to a decline in the manufacturing of engineering products. Production of vehicles saw the most pronounced contraction. The output of motor vehicles and other vehicles declined, while the growth trend in railway vehicle production ceased in September. Additionally, large orders for the production of radio transmitting equipment were completed in November.

Generally-neutral trends were observed in the production of construction materials, including finished metal products for construction purposes. The output of construction-related products was supported by the expectations of higher demand that were registered by the Bank of Russia survey of enterprises.

On the back of an overall weak demand for investment goods, the annual growth rate of producer prices in this sector has not exceeded 3% since June. According to estimates, it was 3.1% in November.

Consumer goods output. In November, the output of consumer goods increased, maintaining the growth trend observed since the third quarter of 2019 (SA, Chart 6). Production was supported by food production, where steady output growth has been observed since June. November saw an increase in the output of products of animal origin, including dairy products, where the growth of retail prices led to a return to profitability.

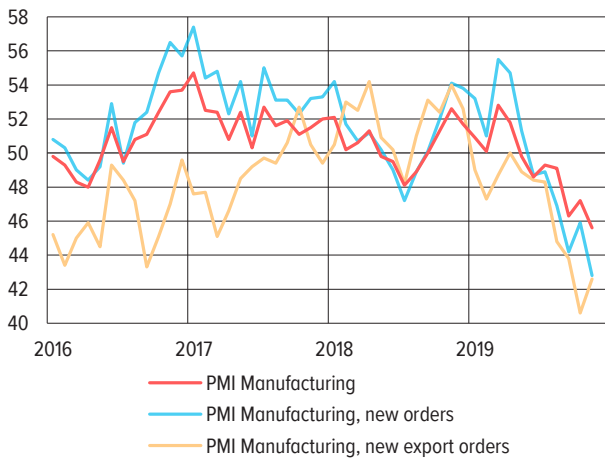
The seasonally-adjusted output of non-food goods demonstrated mixed dynamics in November. On the one hand, the production of durable goods (especially, cars) continued to contract amid wary consumer sentiment towards making such purchases.

On the other hand, this decline was offset by rising output of other types of non-food goods, such as clothes, footwear, leather goods and medicines, amid growing exports and expanding import substitution in Russia.

The trends in producer prices of consumer goods and the trends in consumer prices were influenced by the appreciation of ruble, the expansion of the food supply and constraints on demand. In November, their annual growth

PMI: COMPANIES' ESTIMATES OF DEMAND
FOR THEIR PRODUCTS (SA)

Chart 7

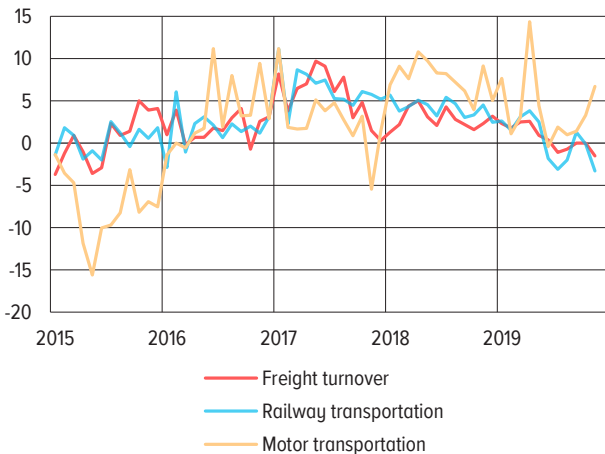


Source: IHS Markit.

FREIGHT TURNOVER

Chart 8

% change on the same month of the previous year

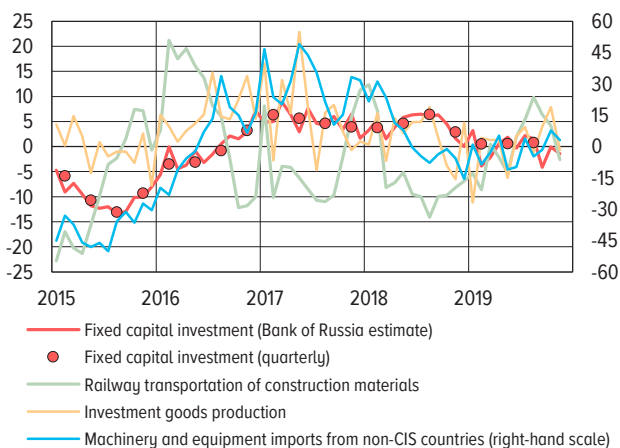


Source: Rosstat.

INVESTMENT ACTIVITY INDICATORS

Chart 9

% change on the same month of the previous year



Sources: Rosstat, FCS, Bank of Russia calculations.

continued to decrease, registering, according to estimates, 0.1%.

Business survey. Survey data point to an ongoing worsening of the market environment in the Russian manufacturing sector in November. The PMI Manufacturing index fell to 45.6 SA (47.2 SA in October), reaching its lowest level since May 2009. According to the survey, business activity weakened on the back of a shrinking volume of new orders in both the external and domestic markets. After growing in the previous few months, Rosstat's Business Confidence Indexes (SA) fell in November to the level of August 2019. As before, companies noted insufficient demand for their products, high taxes and economic uncertainties among the factors limiting output growth. However, the composite PMI, which reflects GDP trends more comprehensively, remained above 50 points in November, thanks to the growth of business activity in the service sector.

Transport. Freight turnover declined by 1.5% YoY in November 2019 after stabilising in the previous two months, showing mixed trends by transport type (Chart 8). Railway freight turnover posted a decline for the second month in a row, driven primarily by decreased exports of coal, ferrous metals and grain. At the same time, motor and air transportation expanded.

Agriculture. In November, Russian agricultural output growth accelerated to 5.8% YoY (5.2% in October). Crop farming was the key contributor to the acceleration of growth. According to Rosstat's estimates, this year's gross grain yield exceeded last year's level by 6.5%. The 2019 oil crop harvest, including sunflower, was the highest in Russia's modern history. The increase in the total sugar beet harvest exceeded last year's figure by 20.3%. It is estimated that this result will make it possible to increase sugar production in the 2019/2020 season to a record high level. Livestock production continues to grow at a steady rate, largely owing to pig breeding.

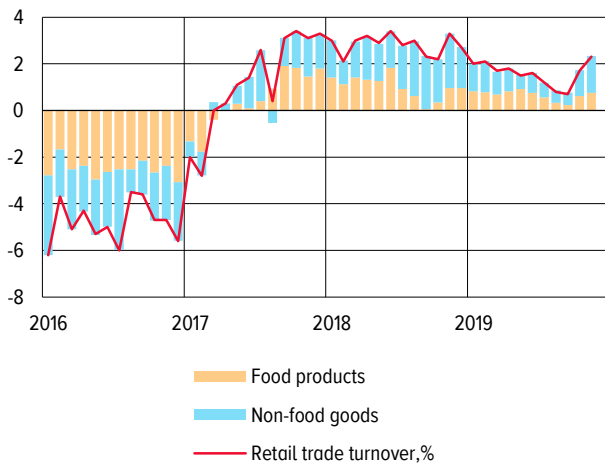
Investment activity

In 2019 Q3, the annual growth rate of fixed capital investment was 0.8% (vs 0.6% in Q2; Chart 9). There was an increase in federal

RETAIL TURNOVER

Chart 10

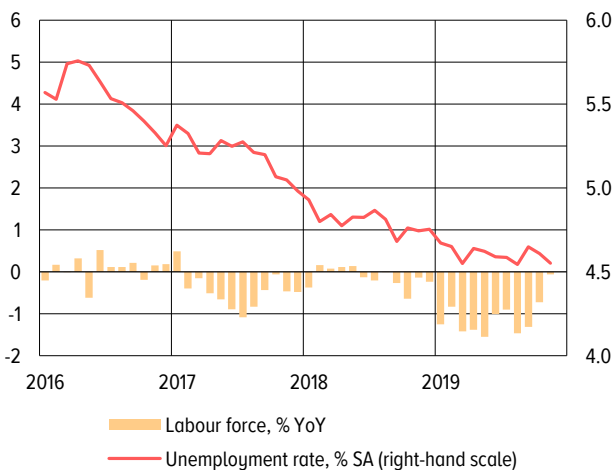
Contribution to annual growth, pp



Sources: Rosstat, Bank of Russia calculations.

UNEMPLOYMENT RATE AND LABOUR FORCE

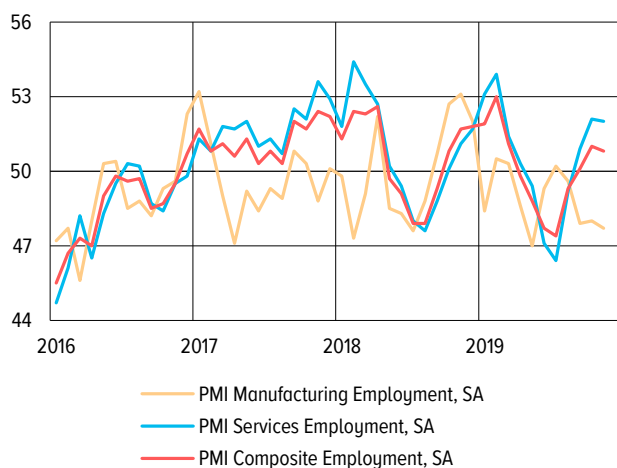
Chart 11



Sources: Rosstat, Bank of Russia calculations.

PMI IN EMPLOYMENT (SA)

Chart 12



Source: IHS Markit.

budget capital expenditures, while private sector investment trends remained negative. As the construction of a number of large projects (the first stage of the construction of the Power of Siberia pipeline, the railway bridge to Crimea) was completed, the growth of investment in infrastructure slowed down.

In November, leading indicators of investment activity demonstrated a lower year-on-year level of fixed capital investment. The production of Russian investment goods contracted, and the growth of imports of investment goods slowed down. After growing during the previous months, railway transportation of construction products significantly dropped, which may be related to growing competition with motor vehicle transport. Furthermore, the past year's low base effect exhausted. However, taking into account the expected acceleration of growth in the government's investment expenditures and the continuing positive dynamics in investment imports, the annual growth rate of fixed capital investment in 2019 Q4 is estimated at 0.6–1.0%.

Consumer activity

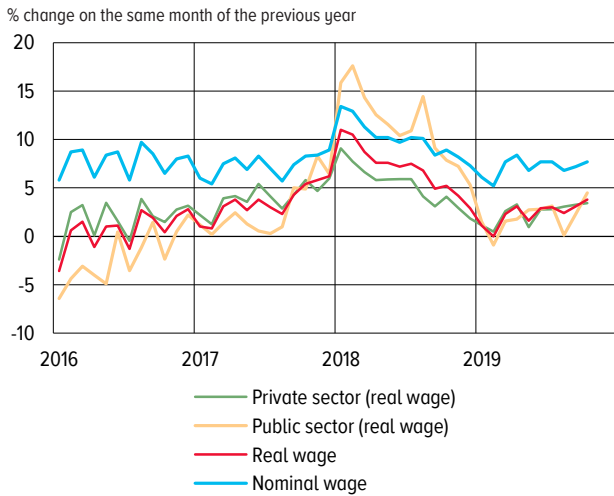
November 2019 saw an increase in household consumption. The annual growth of retail trade turnover rose to 2.3% (vs 1.7% in October; Chart 10), which was caused by both a slowdown of inflation and growing labour compensation (see the 'Labour market and household income' section). Additionally, according to estimates by experts and retailers, this year's 'Black Friday' sales were more successful than those of 2018. According to a [GfK report](#), sales of household appliances and electronics during the week of 'Black Friday' in 2019 grew by 35.3% vs the previous week, which is 5 pp higher than in 2018. Rosstat data indicate likewise: non-food goods demonstrated the most pronounced acceleration in retail trade turnover growth YoY – 3.0% (vs 2.1% in October).

Labour market and household income

In November 2019, unemployment remained at the level of the previous months (Chart 11). According to an IHS Markit PMI survey, the number of employees decreased in

WAGE

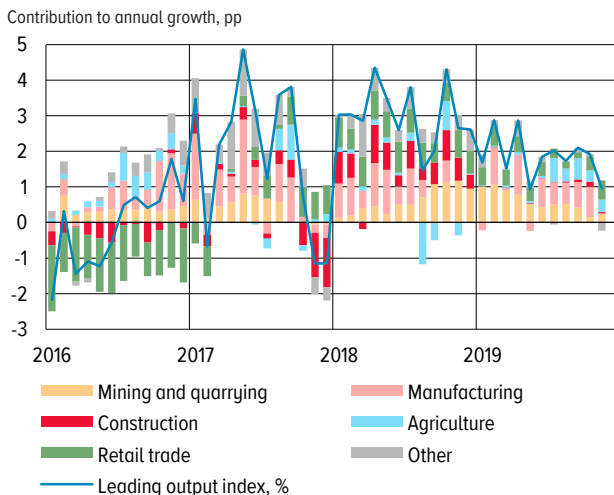
Chart 13



Sources: Rosstat, Bank of Russia calculations.

LEADING OUTPUT INDEX

Chart 14



Sources: Rosstat, Bank of Russia calculations.

manufacturing (PMI Manufacturing: 47.7% SA, Chart 12). At the same time, PMI demonstrated positive trends in the services sector (52 SA).

Real wage growth sped up to 3.8% YoY in October 2019 (vs 3.1% in September; Chart 13) which was for the most part driven by the indexation of the wages of government employees and servicemen by 4.3% and by a slowdown in inflation. According to the Bank of Russia's estimates, real wage growth will experience a slight acceleration in the fourth quarter on the back of further inflation slowdown and, at the end of 2019, will stand at 2.5–3.0%. This acceleration will support consumer demand in the months to come.

Forecast

The currently available macroeconomic statistics for November evidence a declining growth of production activity. The annual growth rate of the leading output index went down in November (Chart 14). However, improved real wage dynamics and increased government expenditures in 2019 Q4, including those related to the implementation of national projects, will support aggregate demand.

In 2019, the GDP growth rate will likely be close to the upper bound of the Bank of Russia forecast of 0.8–1.3%. This is primarily related to higher than expected annual GDP growth in Q3 and output growth in key industries in early Q4. At the same time, the ambiguity of the leading indicators, as well as certain other factors, make it difficult to assess the stability of economic growth.

Cut-off date – 24.12.2019.

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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