



Bank of Russia



ECONOMY

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Information and analytical commentary

3 June 2020

Economy: Facts, Assessments and Comments (April 2020)

April 2020 recorded a decline in business activity in the Russian economy due to the effects of the anti-coronavirus restrictions in place. Output contracted across the majority of industries, and most notably in trade and manufacturing. The unemployment rate increased. Part-time employment continued to trend upwards. Aggregate demand and supply shrank. In the third quarter, the gradual easing of restrictions both in Russia and abroad will pave the way for economic recovery. The Bank of Russia forecasts that GDP will decline by 4–6% as of the end of 2020. Subdued domestic and external demand will continue to put disinflationary pressure in the next quarters.

CORE ECONOMIC INDICATORS

(growth, % YoY, unless indicated otherwise)

Table 1

	2019	2019 Q4	2020 Q1	February 2020	March 2020	April 2020
Aggregate output and leading indicators						
GDP	1.3	2.1	1.6	–	–	–
Output of goods and services by key industry	2.0	2.7	2.3	3.9	1.0	-(7.5–8.5)*
Electricity consumption	1.2	1.1	-0.6	0.2	-1.1	-2.9
Production and investment activity						
Industrial output	2.3	1.8	1.5	3.3	0.3	-6.6
Agricultural output	4.0	5.3	3.0	3.1	3.0	3.1
Construction	0.6	0.9	1.1	2.3	0.1	-2.3
Freight turnover	0.6	-0.8	-3.8	-0.4	-6.7	-6.0
Wholesale turnover	1.6	8.4	9.9	10.1	9.4	-11.3
ΔInventories (contribution to ΔGDP, pp)	0.5	2.0	0.5–1.5*	–	–	–
Investment activity						
Fixed capital investment	1.7	2.3	1.2	–	–	–
Gross fixed capital formation	1.5	2.9	-(1.0–2.0)*	–	–	–
Labour market						
Unemployment rate, seasonally adjusted* (% of labour force)	4.6	4.6 / 4.5	4.6 / 4.4	4.6 / 4.4	4.7 / 4.6	5.8 / 5.6
Nominal wages	9.5	8.2	8.8	8.1	8.6	...
Real wages	4.8	4.6	6.2	5.7	5.9	...
Incomes, savings, and consumer activity						
Real household disposable income	1.0	1.8	-0.2	–	–	–
Household final consumption expenditure	2.5	2.5	2.5–3.5*	–	–	–
Savings ratio	10.0	12.0	6.3	–	–	–
Retail turnover	1.9	2.1	4.3	4.6	5.6	-23.4
Paid services to households	-0.9	-1.4	-0.4	1.1	-4.4	-37.9

* Bank of Russia's assessment.

Sources: Rosstat, Bank of Russia calculations.

Aggregate output and leading indicators

GDP and forecast. According to Rosstat's preliminary assessment, the annual growth of GDP in 2020 Q1 totalled 1.6%, which is in line with the Bank of Russia's forecast given in the

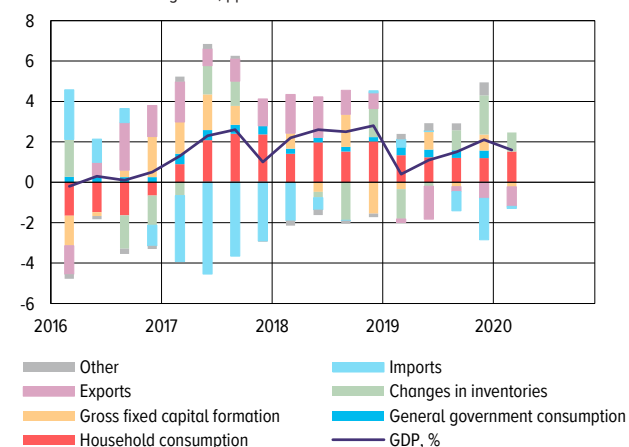
Monetary Policy Report¹ (1.5–2.0%; Chart 1). In January–February, the increase in aggregate output was pushed by the expansion of domestic demand against the background of rising wages and a positive fiscal impulse, including within the implementation of national projects. The

¹ *Monetary Policy Report*, No. 2 (30), April 2020.

GDP BY EXPENDITURE*

Chart 1

Contribution to annual growth, pp



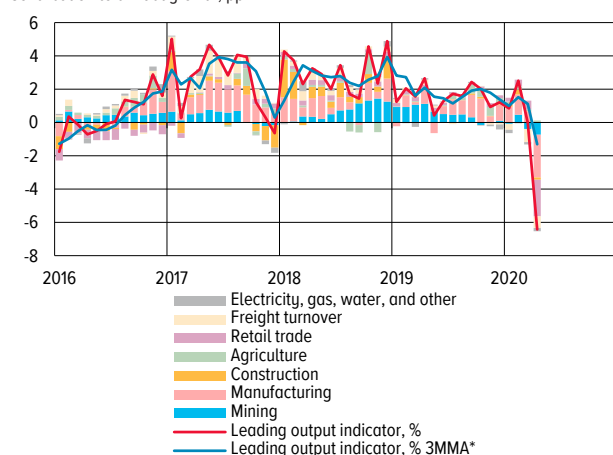
* 2020 Q1: GDP – actual; GDP components by expenditure – the Bank of Russia's assessment.

Sources: Rosstat, Bank of Russia calculations.

LEADING OUTPUT INDICATOR

Chart 2

Contribution to annual growth, pp

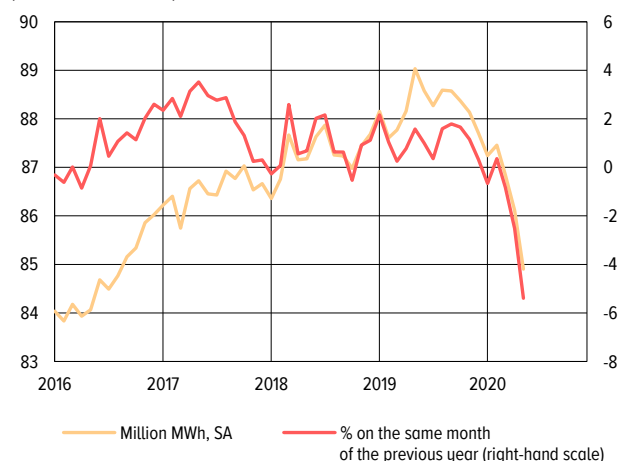


* Three-month moving average growth, % YoY.

Sources: Rosstat, Bank of Russia calculations.

ELECTRICITY CONSUMPTION, ADJUSTED FOR CALENDAR AND TEMPERATURE EFFECTS (OVER A MONTH)

Chart 3



Sources: JSC System Operator of the Unified Energy System, Bank of Russia calculations.

annual growth of output across most industries was also promoted by the leap-year effect (the additional calendar day in February). However, the situation started to reverse in March. The restrictions imposed in various countries to contain the spread of the coronavirus pandemic induced a decline in external demand. In Russia, demand for individual types of services started to decrease even before the announcement of the non-work period (from 30 March).

According to the Bank of Russia's estimate, annual GDP growth rates will become negative in the second quarter due to the material influence of the anti-coronavirus restrictions on economic activity. The gradual easing of restrictions both in Russia and abroad will pave the way for economic recovery in the third quarter. Nonetheless, annual economic growth rates will remain negative in the second half of the year. These estimates largely depend on the duration of the restrictions and the pace of their easing. The Bank of Russia forecasts that GDP will decline by 4–6% as of the end of 2020.

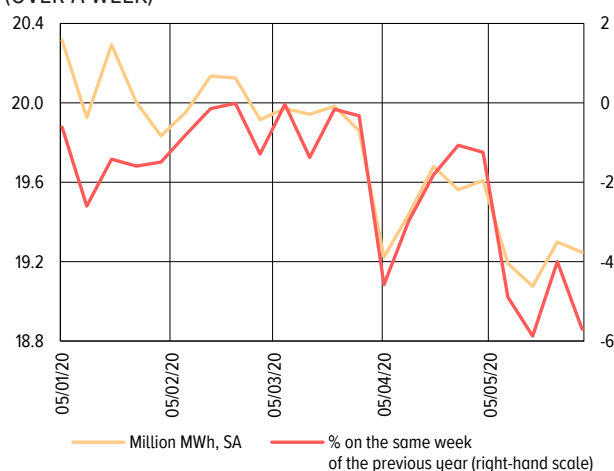
Leading output indicator. The leading output indicator showing annual dynamics of production activity across a broad range of industries plummeted in April 2020 (Chart 2). Retail trade and the output of investment goods were the major contributors to this decline (see the section 'Manufacturing'). This said, the adverse impact of shrinking freight turnover on the movements of this indicator decreased, while the influence of agricultural output remained positive (see the section 'Agriculture').

Electricity consumption. Power consumption continued its downward trend in April due to declining production activity in the Russian economy amid the regime of non-work days. Furthermore, the shrinkage of electricity consumption sped up against March, both in annual (from 1.1% to 2.9%) and monthly terms, adjusted for seasonal and calendar effects (hereinafter, SA), as well for temperature effects (from 0.6% to 0.8%; Chart 3). This was caused by weakening demand for electric power, primarily in manufacturing.

In the second half of April, power consumption partially recovered presumably because a range of enterprises resumed their operations, but in May electricity consumption shrank by

ELECTRICITY CONSUMPTION, ADJUSTED
FOR CALENDAR AND TEMPERATURE EFFECTS
(OVER A WEEK)

Chart 4

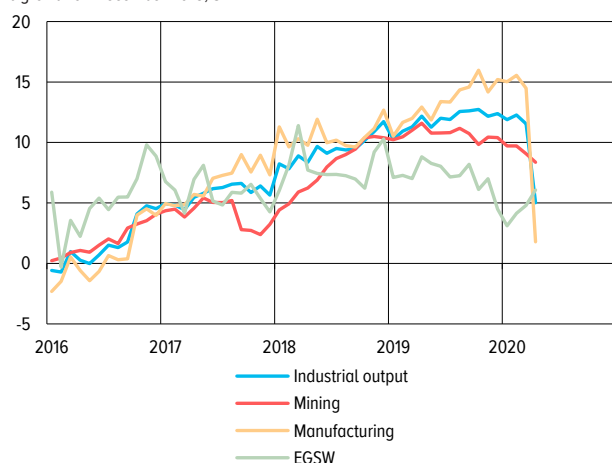


Sources: JSC System Operator of the Unified Energy System, Bank of Russia calculations.

INDUSTRIAL OUTPUT

Chart 5

% growth on December 2015, SA

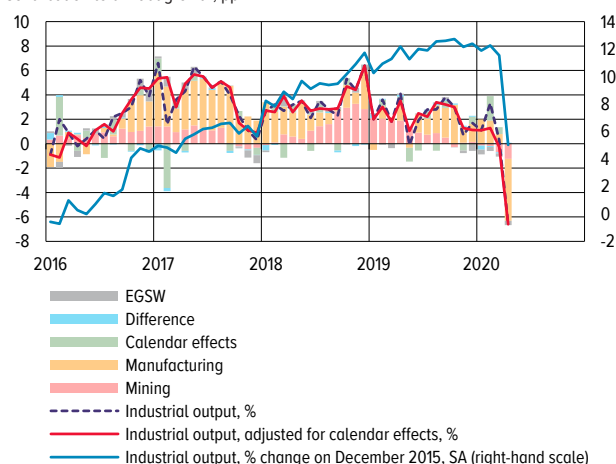


Sources: Rosstat, Bank of Russia calculations.

INDUSTRIAL OUTPUT

Chart 6

Contribution to annual growth, pp



Sources: Rosstat, Bank of Russia calculations.

1.4% (SA) against the April's reading (-5.4% in annual terms; Chart 4). This subsequent decline might be explained by the fact that the extent of tightening and easing of the self-isolation measures varied across Russian regions. Electricity consumption was also dragged down in May by oil cuts under the new OPEC+ agreement.

Production activity

Industrial output. Industrial output significantly contracted in April compared to the previous month (SA), returning to its 2017 H1 level (Chart 5). This decline was mostly due to manufacturing sectors (primarily, the output of investment goods). Mining output also shrank, as in the previous month. The electricity, gas, steam and water supply sector (hereinafter, EGSW)² demonstrated faster growth amid the cold weather in April, but it still remained close to the 2017 average rate.

In April, industrial output contracted by 6.6% in annual terms (vs +0.3% in March; Table 1). Adjusted for calendar effects, industrial output shrank by 6.6% as well (vs -0.3% in March). Manufacturing was the major contributor to this decline (Chart 6).

Mining. The output in mining and quarrying contracted in April as compared to the previous month. Moreover, the output of precious stones, minerals, etc.³ and the provision of mining-related services decreased the most. Contrastingly, the output of fossil fuels trended upwards. The termination of the OPEC+ deal in April increased oil production. After the slump in the previous month, natural gas output expanded, including because the Power of Siberia gas pipeline was restarted after its shutdown for the maintenance in the second half of March. Coal output continued to grow in April, which was associated with a partial recovery of demand for coal in China (Chart 7).

In April, the year-over-year output in mining adjusted for calendar effects shrank by 3.2% (vs

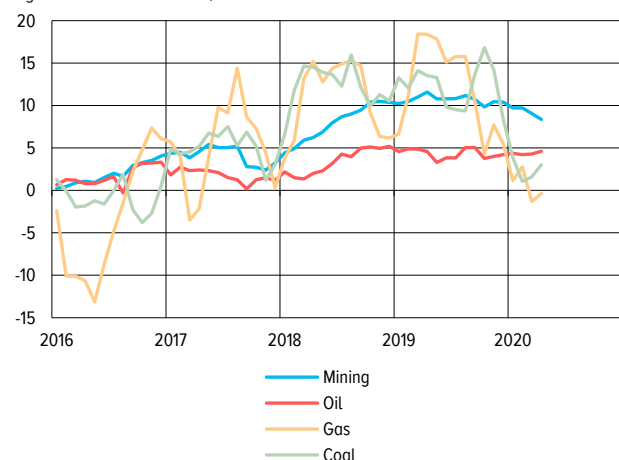
² Hereinafter, EGSW imply the economic activity 'Electricity, gas and steam supply; air conditioning; water supply; waste management and pollution controls'.

³ Comprises the output of precious stones, rock, sand, clay, mineral raw materials, salt, peat, and other minerals.

MINING AND QUARRYING

Chart 7

% growth on December 2015, SA

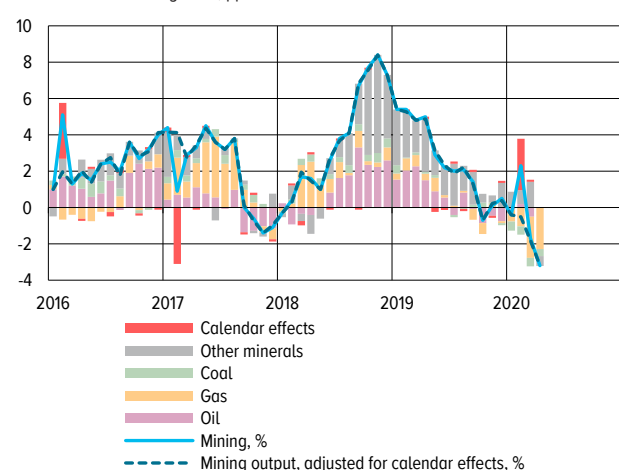


Sources: Rosstat, Bank of Russia calculations.

MINING AND QUARRYING

Chart 8

Contribution to annual growth, pp

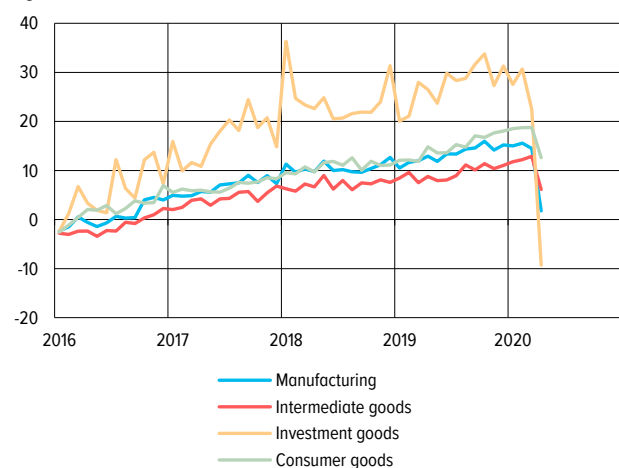


Sources: Rosstat, Bank of Russia calculations.

MANUFACTURING

Chart 9

% growth on December 2015, SA



Sources: Rosstat, Bank of Russia calculations.

-1.8% in March). Natural gas production was the major contributor to the reduction in the overall output, which is partially explained by the last year's high basis (Chart 8).

In May and further on, the output in mining and related industries will be considerably affected by oil production cuts required by the new OPEC+ deal.

Manufacturing. The output in manufacturing plummeted in April (to its October 2016 lows; Chart 9). The contracting output of investment goods continued to be the major drag. Furthermore, the output of intermediate goods also declined a lot amid decreasing demand for them among enterprises.

The year-over-year output in manufacturing adjusted for calendar effects shrank by 10%, which is the largest reduction since 2009 (vs +1.5% in March; Chart 10).

Intermediate goods. After the sustainable growth in the previous months, the output of intermediate goods significantly contracted in April. Moreover, the decline was recorded across all major sectors, and most noticeably in rubber and plastic goods production and in oil refining. Motor fuel output considerably shrank amid the decline in transportation (see the Annex, Charts 1 and 2).

Investment goods. April's reduction in the output of investment goods reached its record high. It was caused by contracting demand amid the uncertainty regarding the development prospects of the Russian economy and the global economy, and the revision of investment plans by multiple companies. The second reason behind this slump was the shutdown of a broad range of enterprises for the non-work period. Another negative factor was a shortage of components resulting from the termination of operations by a number of businesses and disruptions of domestic and global production chains.

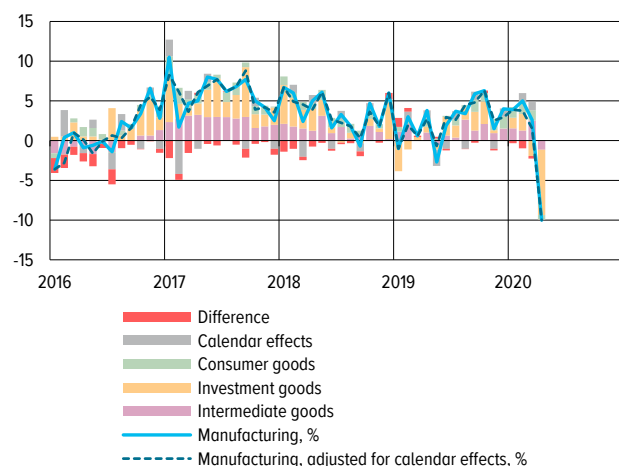
The output of construction finishing materials and engineering products also declined. Moreover, the output of electronics, computers and vehicles shrank the most in the engineering industry (see the Annex, Charts 3 and 4).

Consumer goods. The output of consumer goods contracted (SA) due to declining household demand (for details, see the section

MANUFACTURING

Chart 10

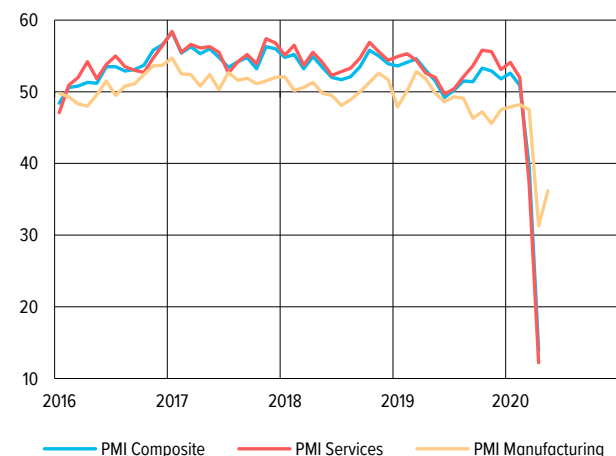
Contribution to annual growth, pp



Sources: Rosstat, Bank of Russia calculations.

PMI (SA)

Chart 11



Source: IHS Markit.

‘Retail turnover’). Furthermore, the decrease in the output of non-food goods was markedly larger than in food output. The segments of everyday goods (clothing and leather goods) and durable goods (cars, household appliances, and furniture) also recorded a reduction in output. This was associated with the closure of a broad range of stores amid the anti-pandemic restrictions and the overall decrease in demand.

Output was supported by a temporary rise in demand for non-perishable food products (canned fish and meat, flour, sunflower oil). The output of medical products also expanded. Specifically, the output of medical wear increased twice, and the output of medicines reached its record high (see the Annex, Charts 5 and 6).

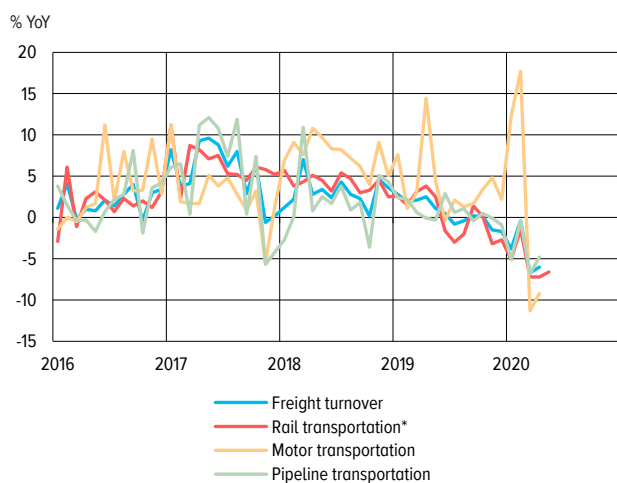
Electricity, gas, steam and water. Due to the relatively cold weather in April, electricity and hot water output was up in monthly terms.⁴ However, annual output continued to decline amid weakening economic activity. The output in water supply and pollution controls shrank significantly (MoM). Overall, the decline in EGSW output sped up in annual terms, accounting for 0.4 pp of the annual reduction in industrial output.

Business surveys. In the conditions of the coronavirus pandemic, the composite PMI in Russia dropped to 13.9 in April (vs 39.5 in March; Chart 11). Business activity rapidly declined in both the service sector (12.2 in April vs 37.1 in March) and manufacturing (31.3 in April vs 47.5 in March). Moreover, the decrease in the PMI indices was the largest on record. A significant drag was the contraction of new orders, primarily domestic ones. Shutdowns of enterprises due to the self-isolation regime entailed a slump in the outputs of surveyed companies. Rosstat’s Business Confidence Indices (alternative indicators of business activity) also demonstrated a decline in April, and most notably in manufacturing. Companies reported that subdued domestic demand for their products, economic uncertainties, and high taxes were the major factors limiting output growth.

⁴ Compared to seasonally adjusted March and April temperatures.

FREIGHT TURNOVER

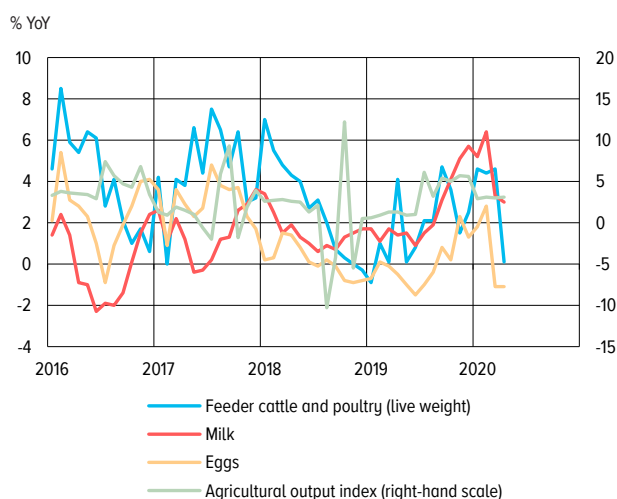
Chart 12



* In May, according to JSC Russian Railways.
Sources: Rosstat, JSC Russian Railways.

AGRICULTURE

Chart 13



Source: Rosstat.

In May, Russia's manufacturing PMI slightly rose (to 36.2 points). As a number of Russian regions eased their restrictions affecting economic activity, companies' estimates of their output and demand for their products slightly improved compared to the previous month. Nonetheless, PMI Manufacturing remained considerably below 50 points, suggesting that business sentiment in manufacturing generally continued to deteriorate. For the first time on record, companies expect a decline in output over a one-year horizon, probably because they fear that demand will remain weak for a long time over the course of economic recovery after the pandemic.

Transport. In April, the annual decline in rail freight turnover remained the same as in March, equalling 7.2% (Chart 12). Railway cargo transportation contracted by 5.9% in annual terms, which is more than in March (-5.5%). April recorded a considerable reduction in the shipments of coal, ferrous metals, oil, and petroleum products. The annual decrease in rail passenger transportation sped up (-69.7% in April vs -13.4% in March)⁵ amid the self-isolation regime and the restrictions limiting people's travels to contain the spread of the coronavirus pandemic.

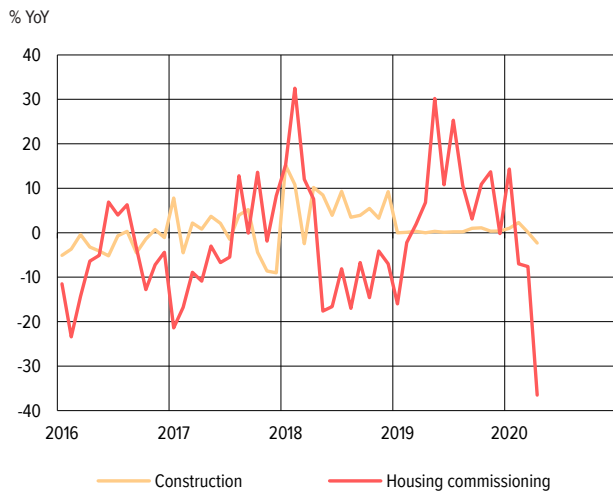
Overall, the decline in freight turnover slowed down to 6.0% in April (vs -6.7% in March). Freight turnover contracted across all types of transport, except sea and inland water transport. Motor transportation shrank the most, which was associated with the slump in retail turnover amid the self-isolation regime in Russia. The decrease in pipeline transportation was induced by the further decline in natural gas exports to non-CIS countries.

Agriculture. In April, the annual growth of agricultural output reached 3.1% (vs 3.0% in March; Chart 13). As before, the major contributor to this increase was livestock breeding, specifically the output of meat and milk, although its growth declined. The output of greenhouse vegetables continues

⁵ According to JSC Russian Railways, the annual decline in rail freight turnover slowed down to 6.6% in May; railway cargo shipments decreased by 5.4% returning to March 2020 readings. The annual reduction in rail passenger transportation slightly decelerated to 67.6%.

CONSTRUCTION

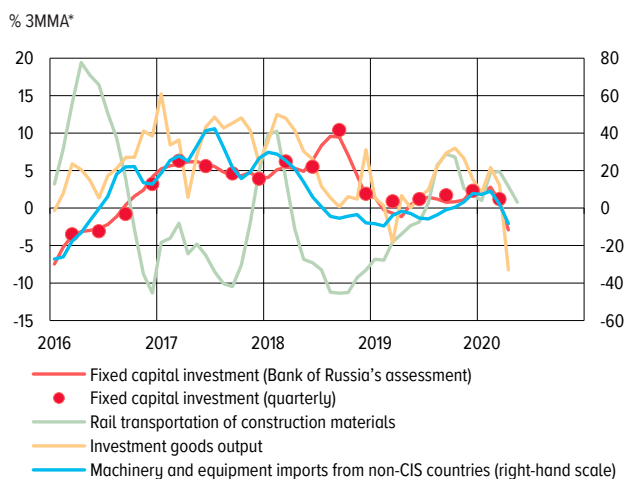
Chart 14



Source: Rosstat.

INVESTMENT ACTIVITY INDICATORS

Chart 15



* Three-month moving average growth, % YoY.

Sources: Rosstat, Federal Customs Service, Russian Railways, Bank of Russia calculations.

to demonstrate high growth rates. As of 1 May 2020, agricultural producers' spring crops covered 9.2 million hectares, which is 2% more than as of 1 May 2019. Russia's Ministry of Agriculture forecasts that grain harvest in 2020 will approximate 120 million tons, exceeding its last 5-year average. According to Rosstat, the gross yield of grain in 2019 totalled 121.2 million tons.

Construction. In April, construction declined by 2.3% in annual terms, after its near-zero growth in the previous month (Chart 14). Moreover, there was a considerable reduction in housing commissioning (-36.5% in April vs -7.6% in March). This decrease was caused by the measures restricting construction works in 44 Russian regions amid the coronavirus pandemic, including the almost complete suspension of construction in Moscow and the Moscow Region. A gradual easing of the self-isolation regime in May and June is expected to promote a revival in construction.

Investment activity

In 2020 Q1, the annual growth of fixed capital investment slowed down to 1.2% from 2.3% in the previous quarter (Chart 15). This decline was caused by the rising uncertainty amid the anti-coronavirus restrictions and the weakening of the ruble. Investment activity was supported by more extensive federal budget spending, including within the implementation of national projects.⁶

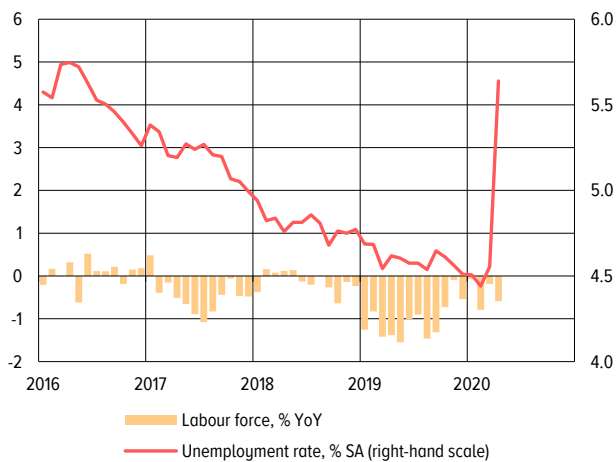
According to the Bank of Russia's assessments, fixed capital investment significantly shrank in April compared to the previous month (SA). All indirect indicators of investment demand declined. After the weak rise the month before, rail transportation of construction materials resumed the downward trend. Imports of engineering products contracted to the February 2017 level amid the depreciation of the ruble, the restrictions imposed, and disruptions in logistics chains. In April, the decrease in investment goods output was the largest on record.

As assessed by the Bank of Russia, fixed capital investment in April also declined in

⁶ Federal budget spending increased by 53.3% in 2020 Q1.

UNEMPLOYMENT RATE AND LABOUR FORCE

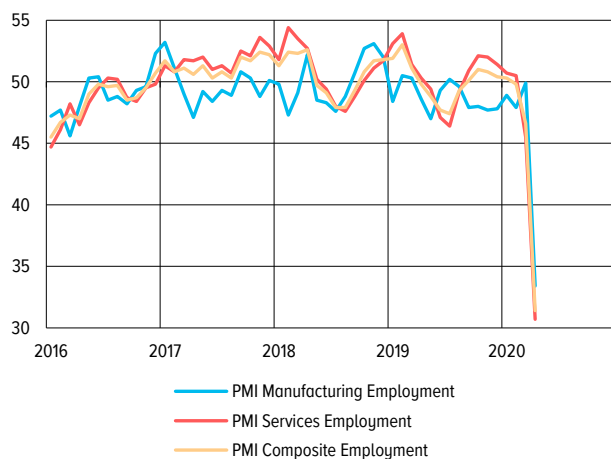
Chart 16



Sources: Rosstat, Bank of Russia calculations.

PMI IN EMPLOYMENT (SA)

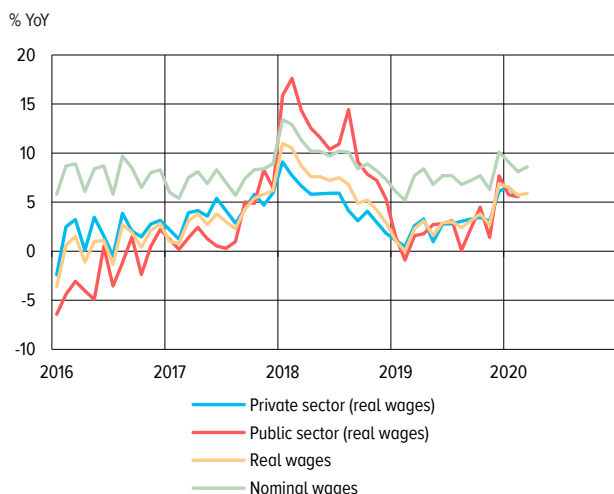
Chart 17



Source: IHS Markit.

WAGES

Chart 18



Sources: Rosstat, Bank of Russia calculations.

annual terms. The output of investment goods and imports of engineering products from non-CIS countries were the indirect indicators of investment activity that dropped most notably in annual terms.

Labour market

Employment. The suspension of operations by a broad range of enterprises reduced demand for labour. The unemployment rate rose to 5.6% SA in April (vs 4.6% in March; Chart 16), which conforms to the 2015 average. According to IHS Markit surveys, demand for labour contracted in both the service sector and manufacturing (PMI Composite Employment 31.4 SA – all-time low; Chart 17). The number of unemployed increased (SA) by 0.8 million individuals over the month. Moreover, the number of requests to employment agencies significantly rose (SA), which was associated with, among other things, the increase in the maximum unemployment compensation to 1 minimum monthly wage (12,100 rubles). In addition to dismissals, employers also used part-time employment.

Wages. The annual growth of nominal wages remained high in March, equalling 8.6% (vs 8.1% in February; Chart 18). In real terms, the growth rate reached 5.9% (vs 5.7% in February). According to the Bank of Russia's estimates, labour remuneration and household earnings in general presumably declined amid weakening economic activity, which is evidenced by relevant surveys (see the sections 'Business surveys' and 'Consumer sentiment').

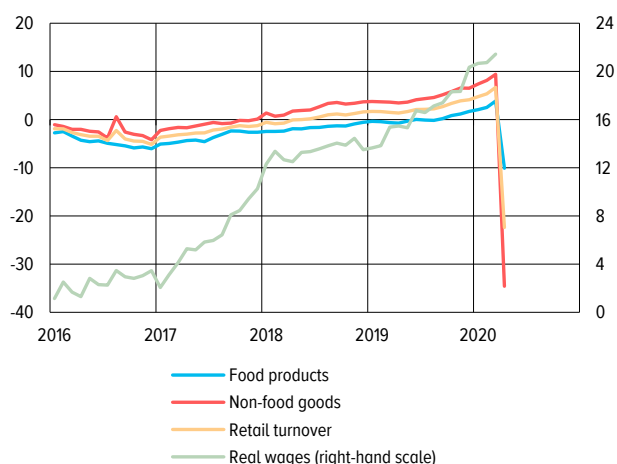
Consumer activity

Retail turnover. April 2020 recorded a slump in consumer activity due to the anti-coronavirus lockdown and the closure of a range of retailers. As assessed by the Bank of Russia, retail turnover contracted by 27.3% compared to the previous month (SA; Chart 19). Non-food goods accounted for the largest percentage of the decline in retail turnover (-40.2%). Demand for food products contracted less significantly (-13.4%) for two reasons. Firstly, food retailers were not subject to the regime of non-work days. Secondly, food demand is less income-elastic than non-food demand. In annual terms,

RETAIL TURNOVER AND REAL WAGES

Chart 19

% growth on December 2015, SA

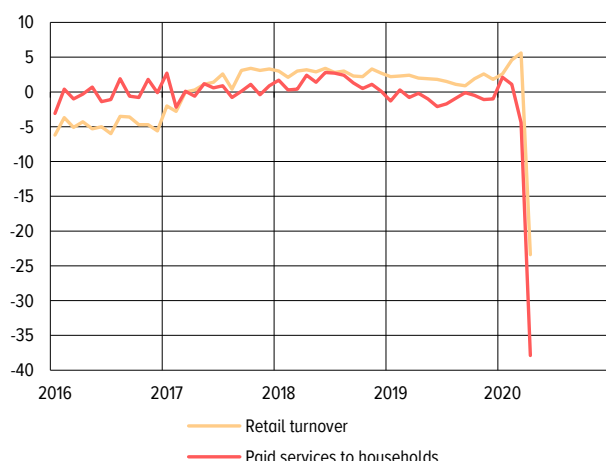


Sources: Rosstat, Bank of Russia calculations.

CONSUMER DEMAND INDICATORS

Chart 20

% YoY



Sources: Rosstat, Bank of Russia calculations.

retail turnover shrank by 23.4% (Chart 20). Businesses switched to online sales, which supported retail turnover in the conditions of the self-isolation regime.

The operations of service enterprises⁷ were almost completely suspended, which entailed a record high decline in the volume of paid services (-37.9% in annual terms). According to recent data for May, the decrease in overall spending significantly slowed down as a number of regions started to ease the self-isolation regime.

Consumer sentiment. According to InFOM's survey, 42% of respondents complained about further deterioration of their financial standing in the second half of April, which was associated with the adverse economic impact of the anti-pandemic restrictions. The main reason was declining incomes due to a wage reduction or job loss by a family member. The percentage of respondents who reported that their incomes decreased and they had to abandon commonly purchased products and services increased to 44% from 28% in the first survey carried out over the first ten days of the month.

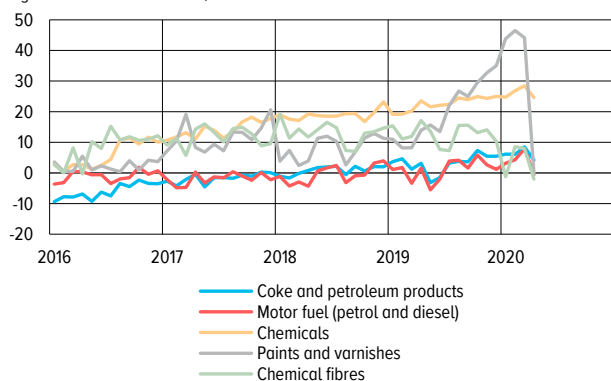
According to the third telephone survey conducted by InFOM, respondents' estimate of their financial standing changes remained the same in late April – early May compared to the second half of April. Concurrently, households became less pessimistic about their financial standing in a month. As a number of regions eased their economic restrictions in May, this will promote an upturn in incomes and improve consumer sentiment in the next month.

⁷ Except continuously operating medical and other organisations. Refer to Executive Order of the Russian President No. 239, dated 2 April 2020, 'On Measures to Ensure the Sanitary and Epidemiological Safety of the Population in Connection with the Spread of the Novel Coronavirus Infection (COVID-19)'.

Annex

PETROLEUM PRODUCTS, CHEMICAL SUBSTANCES
AND PRODUCTS *Chart 1*

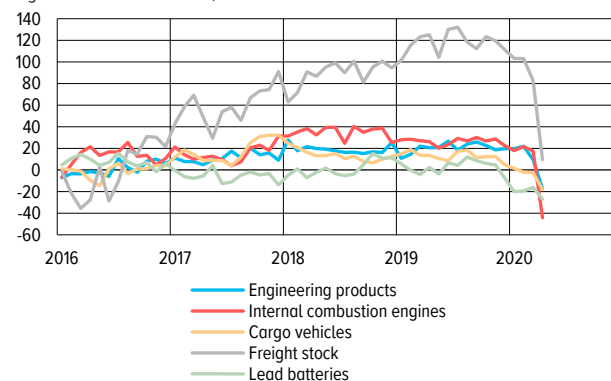
% growth on December 2015, SA



Sources: Rosstat, Bank of Russia calculations.

ENGINEERING PRODUCTS *Chart 4*

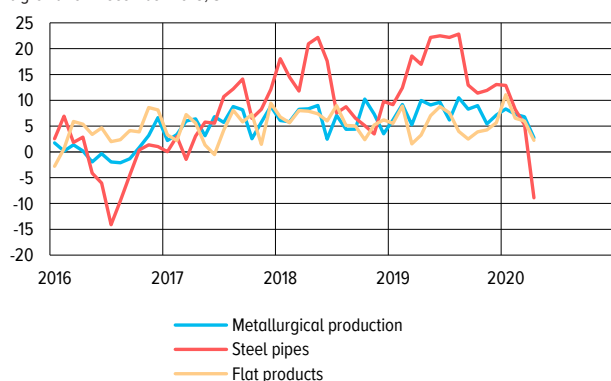
% growth on December 2015, SA



Sources: Rosstat, Bank of Russia calculations.

METALLURGICAL PRODUCTION *Chart 2*

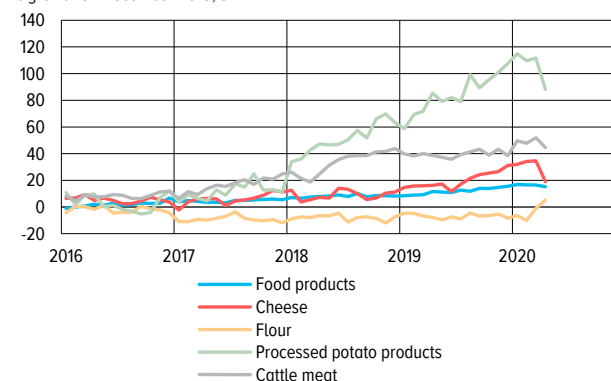
% growth on December 2015, SA



Sources: Rosstat, Bank of Russia calculations.

FOOD PRODUCTS *Chart 5*

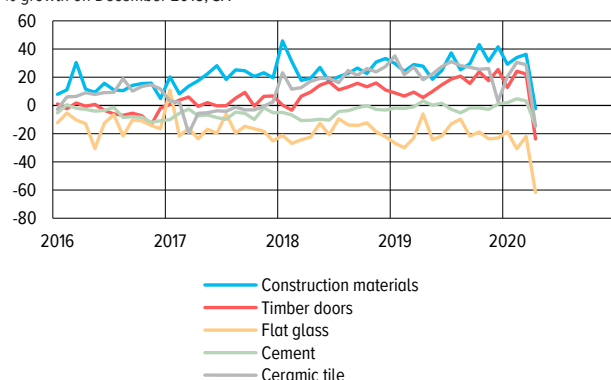
% growth on December 2015, SA



Sources: Rosstat, Bank of Russia calculations.

CONSTRUCTION MATERIALS *Chart 3*

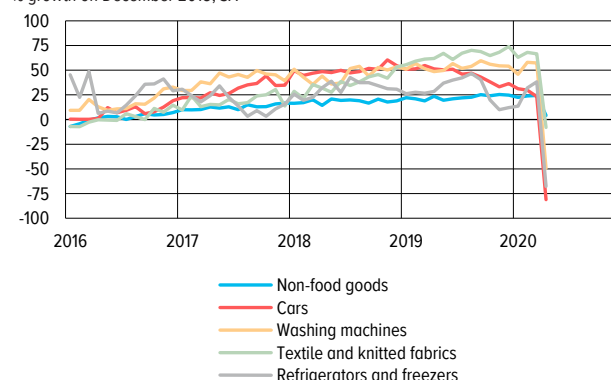
% growth on December 2015, SA



Sources: Rosstat, Bank of Russia calculations.

NON-FOOD GOODS *Chart 6*

% growth on December 2015, SA



Sources: Rosstat, Bank of Russia calculations.

Data cut-off date – 01.06.2020.

A [soft copy](#) of the information and analytical commentary is available on the Bank of Russia website.Please send your comments and suggestions to svc_analysis@cbr.ru.
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