



Bank of Russia



# ECONOMY

No. 6 (54) • June 2020

Information and analytical commentary

28 July 2020

## Economy: Facts, Assessments and Comments (June 2020)

In June 2020, economic activity in Russia started to restore. The easing of the restrictions, coupled with budget-funded measures supporting households and corporates, as well as deferred demand promoted a rise in consumer activity and an emerging revival of investment demand. Contrastingly, trends in the labour market remained negative. Income decline, only a partial cancellation of the restrictions in the service sector, and weak external demand will continue to hinder the rebound of economic activity throughout 2020, due to which demand in the economy will remain moderate. According to the Bank of Russia's forecast, GDP will decrease by 4.5–5.5% in 2020. Aggregate demand will continue to put disinflationary pressure on the growth rates of consumer prices.

### CORE ECONOMIC INDICATORS

(growth, % YoY, unless indicated otherwise)

Table 1

|  | 2019 | 2019 Q4 | 2020 Q1 | 2020 Q2            | April 2020 | May 2020 | June 2020         |
|--|------|---------|---------|--------------------|------------|----------|-------------------|
| <b>Aggregate output and leading indicators</b>             |      |         |         |                    |            |          |                   |
| GDP  | 1.3  | 2.1     | 1.6     | –                  | –          | –        | –                 |
| Key Industry Index   | 2.0  | 2.7     | 2.3     | –                  | -9.9       | -10.8    | -8.6 <sup>1</sup> |
| Electricity consumption <sup>2</sup>                       | 1.2  | 1.1     | -0.6    | -4.5               | -2.9       | -5.4     | -5.7              |
| <b>Production activity</b>                                 |      |         |         |                    |            |          |                   |
| Industrial output  | 2.3  | 1.8     | 1.5     | -8.5               | -6.6       | -9.6     | -9.6              |
| Agricultural output  | 4.0  | 5.3     | 3.0     | 3.1                | 3.1        | 3.2      | 3.0               |
| Construction   | 0.6  | 0.9     | 1.1     | -1.7               | -2.3       | -3.1     | -0.1              |
| Freight turnover   | 0.6  | -0.8    | -3.8    | -8.2               | -5.8       | -9.3     | -9.5              |
| Wholesale turnover   | 1.6  | 8.4     | 6.2     | –                  | -11.3      | -12.5    | –                 |
| Inventories (contribution to GDP, pp)                      | 0.5  | 2.0     | 0.2     | -1.6 <sup>1</sup>  | –          | –        | –                 |
| <b>Investment activity</b>                                 |      |         |         |                    |            |          |                   |
| Fixed capital investment                                   | 1.7  | 2.3     | 1.2     | –                  | –          | –        | –                 |
| Gross fixed capital formation                              | 1.5  | 2.9     | 1.8     | -8.0 <sup>1</sup>  | –          | –        | –                 |
| <b>Labour market</b>                                       |      |         |         |                    |            |          |                   |
| Unemployment rate, seasonally adjusted (% of labour force) | 4.6  | 4.6/4.5 | 4.6/4.4 | 6.0/6.0            | 5.8/5.7    | 6.1/6.1  | 6.2/6.3           |
| Nominal wages  | 9.5  | 8.2     | 8.8     | –                  | 1.0        | 4.0      | ...               |
| Real wages   | 4.8  | 4.6     | 6.2     | –                  | -2.0       | 1.0      | ...               |
| <b>Incomes, savings, and consumer activity</b>             |      |         |         |                    |            |          |                   |
| Household real disposable money income                     | 1.0  | 1.8     | 1.2     | -8.0               | –          | –        | –                 |
| Household final consumption expenditure                    | 2.5  | 2.5     | 3.3     | -15.0 <sup>1</sup> | –          | –        | –                 |
| Saving ratio   | 9.7  | 10.9    | 8.8     | 23.0               | –          | –        | –                 |
| Retail turnover  | 1.9  | 2.1     | 4.4     | -16.6              | -23.2      | -19.2    | -7.7              |
| Commercial services to households                          | -0.9 | -1.4    | -1.9    | -37.2              | -39.9      | -39.5    | -34.5             |

<sup>1</sup> Bank of Russia's assessment.

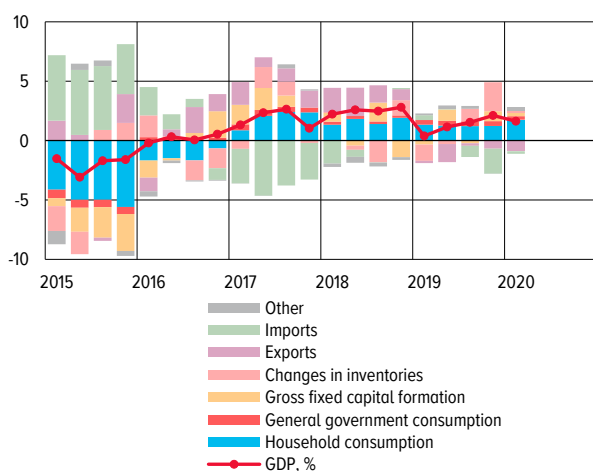
<sup>2</sup> Adjusted for calendar and temperature effects.

Sources: Rosstat, Bank of Russia calculations.

## GDP BY EXPENDITURE

Chart 1

Contribution to annual growth, pp

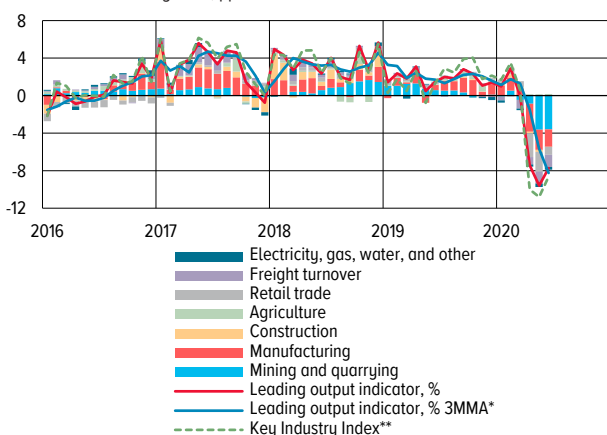


Sources: Rosstat, Bank of Russia calculations.

## LEADING OUTPUT INDICATOR

Chart 2

Contribution to annual growth, pp



\* Hereinafter, 3-month moving average growth, % YoY.

\*\* Key Industry Index. June's reading is the Bank of Russia's estimate.

Sources: Rosstat, Bank of Russia calculations.

## Aggregate output and leading indicators

**GDP by expenditure in 2020 Q1.** According to Rosstat's data on GDP in 2020 Q1 broken down by expenditure component, the increase in GDP was mostly driven by final consumption expenditure – its annual growth reached 3.3% in 2020 Q1, up from 2.5% in the previous quarter (Chart 1). Consumer demand was primarily boosted by consumption of domestic goods and services. Against the backdrop of disrupted production chains and the beginning contraction of the tourism service segment caused by the anti-coronavirus restrictions limiting people's travels, the negative contribution of imports to GDP growth decreased. As before, the rise in output was also curbed by a 3.4% decline in exports (vs -2.5% in 2019 Q4) induced by a slump in external demand amid the coronavirus pandemic.

**GDP forecast.** According to the Bank of Russia's estimate, the annual decrease in GDP may equal 9–10% in 2020 Q2. A key reason for shrinking output was lower household consumption resulting from declining incomes amid the restrictions affecting economic activity. Another drag was the reduction in exports caused by sluggish external demand and the oil production cuts under the OPEC+ deal. Budget-funded measures supporting households and corporates pushed domestic demand in Q2 upwards. In 2020 Q3, the easing of the restrictions both in Russia and abroad will pave the way for economic revival, which will be largely driven by recovering consumer demand. However, the annual economic growth rate will remain negative in the second half of the year. According to the Bank of Russia's estimate, GDP may shrink by 4.5–5.5% by the end of 2020.

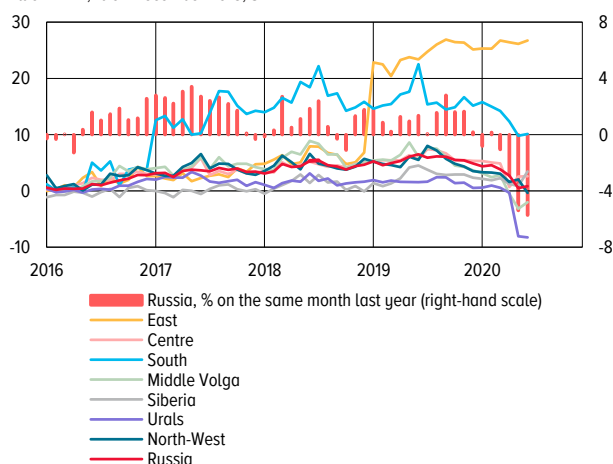
In June, the **leading output indicator**<sup>1</sup> declined by 7.7% in annualised terms, which is less than -9.6% in May (Chart 2). The annual decrease in output in the retail industry and construction significantly slowed down, evidencing a revival in consumer and investment demand (see the sections 'Construction' and 'Consumption and

<sup>1</sup> According to the Bank of Russia's assessment. This indicator shows annual changes in production activity across key industries.

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

Chart 3

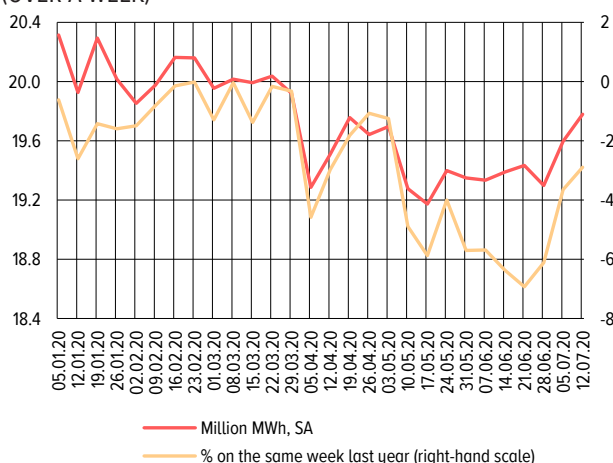
Million MWh, % on December 2015, SA



Sources: JSC System Operator of the United Power System, Bank of Russia calculations.

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

Chart 4

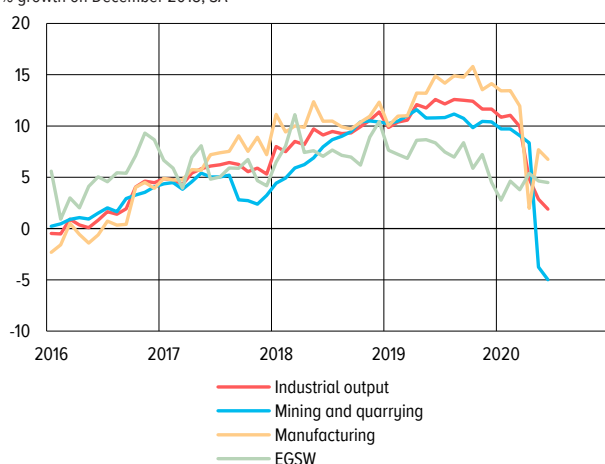


Sources: JSC System Operator of the United Power System, Bank of Russia calculations.

## INDUSTRIAL OUTPUT

Chart 5

% growth on December 2015, SA



Sources: Rosstat, Bank of Russia calculations.

savings'). Manufacturing sectors continued to rebound. The negative contribution of mining and quarrying slightly increased due to the OPEC+ agreement effective since 1 May 2020 (see the 'Mining and quarrying' section). According to the Bank of Russia's assessment, the shrinkage of output in key industries (Key Industry Index) slowed down to 8.6% in June (vs -10.8% in May).

**Electricity consumption.** As assessed by the Bank of Russia, power consumption stopped to decline in June amid reviving economic activity: its seasonally adjusted (SA) monthly growth rate equalled 0.3% (vs -2.1% in May; Chart 3). Power consumption recovered in the majority of Russian regions, except in the Urals and the Northwest, which was associated with the reduction in electricity consumption by energy-intensive oil companies amid shrinking oil production. The substantial decrease in production also induced a further decline in power consumption in annualised terms, adjusted for calendar and temperature effects, specifically by 5.7% (vs -5.4% in May).

In the first half of July, electricity consumption continued to demonstrate weak growth (Chart 4). This rise was most noticeable in the South and the Centre of Russia. According to the Bank of Russia's estimate, the annual decrease in power consumption may slow down to 3.4% in July.

## Production activity

**Industrial output.** Month-on-month industrial output contracted in June, while significantly less than in May (SA). Overall, industrial output remained at its September 2016 level (Chart 5). Output in mining and quarrying shrank most notably. After a rise the month before, output in manufacturing receded only slightly, staying close to the previous month's level.

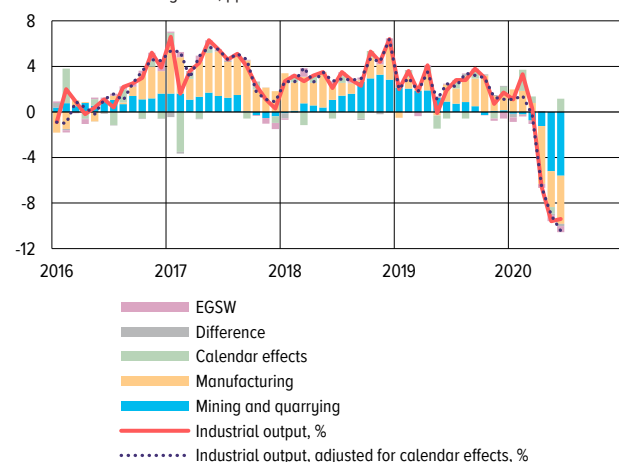
The annual decrease in industrial production reached 9.4% in June (vs -9.6% in May), and 10.4% adjusted for calendar effects (vs -9.1% in May). This reduction was caused by adverse trends in all industries, with mining and quarrying being the strongest drag (Chart 6).

**Mining and quarrying.** Output in mining and quarrying contracted by 1.3% in June (SA)

## INDUSTRIAL OUTPUT

Chart 6

Contribution to annual growth, pp

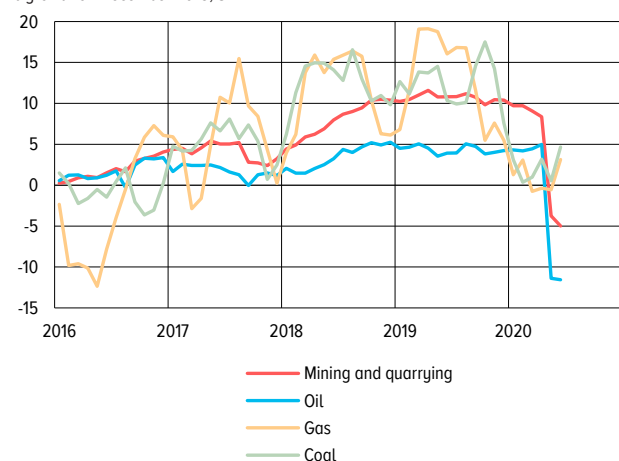


Sources: Rosstat, Bank of Russia calculations.

## MINING AND QUARRYING

Chart 7

% growth on December 2015, SA

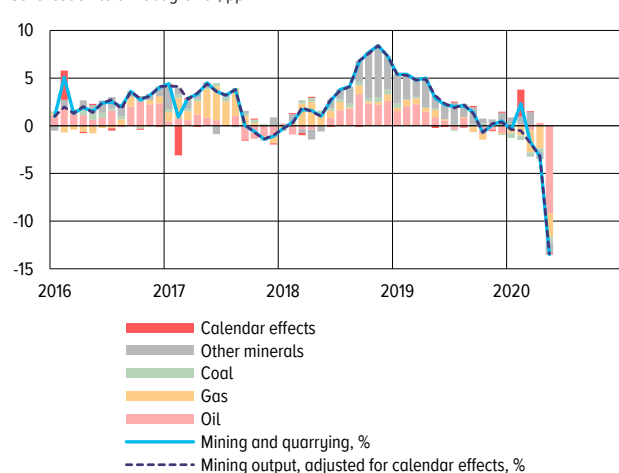


Sources: Rosstat, Bank of Russia calculations.

## MINING AND QUARRYING

Chart 8

Contribution to annual growth, pp



Sources: Rosstat, Bank of Russia calculations.

compared to the previous month (vs -11.2% in May; Chart 7), primarily because of oil production. Gas and coal output adjusted upwards in June owing to reviving external demand.

Year-on-year output in mining and quarrying, adjusted for calendar effects, continued to decrease even faster, specifically by 14.2% (vs -13.5% in May; Chart 8).

**Manufacturing.** Output in manufacturing slightly shrank in June (SA), while generally remaining close to the May level. Consumer goods output continued to bounce back. The output of investment goods stayed close to its previous month's reading. Intermediate goods output maintained the downward trend (Chart 9).

Year-on-year output in manufacturing, adjusted for calendar effects, contracted by 8.3% (vs -6.2% in May). According to the Bank of Russia's assessment, the main reason for the annual decrease in output was the declining production of investment goods (-5.1 pp), which is partially explained by the last year's high basis (Chart 10).

**Intermediate goods.** Intermediate goods output trended down in June, just as the month before. The reduction in the output of petroleum products slowed down. The production of chemicals slightly decreased, with key products showing diverse trends in output. The output of fertilisers and plastics contracted the most. Conversely, non-ferrous metal production expanded (Annex; Charts 1 and 2).

**Investment goods.** After a significant rebound the month before, investment goods output slightly shrank. This mostly resulted from the decline in the output of engineering products, after its partial recovery in May driven by the easing of the restrictions and the expansion of the governmental programmes supporting enterprises. The output of construction materials continued to expand, returning to April's level. This rise was spurred by the resumption of construction works in a considerable part of Russian regions (see the section 'Construction'; Annex; Charts 3 and 4).

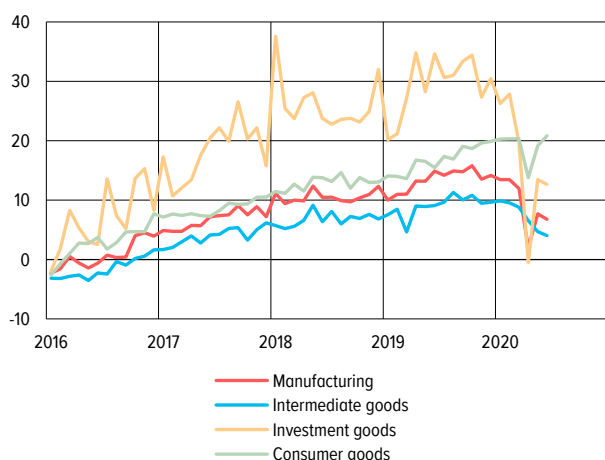
**Consumer goods.** The output of consumer goods continued to trend up in June (SA). Growth was recorded in the manufacture of both food and non-food products.



## MANUFACTURING

Chart 9

% growth on December 2015, SA

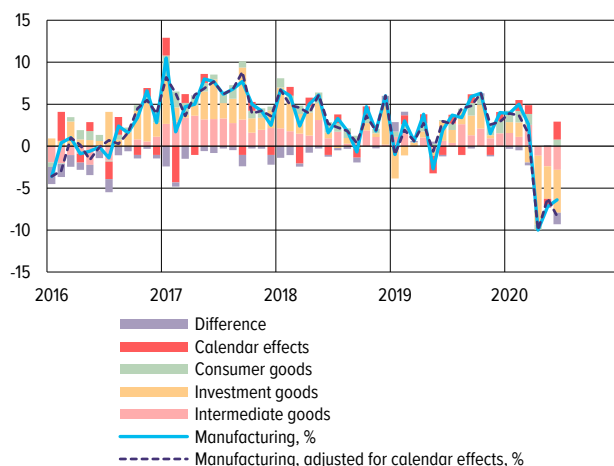


Sources: Rosstat, Bank of Russia calculations.

## MANUFACTURING

Chart 10

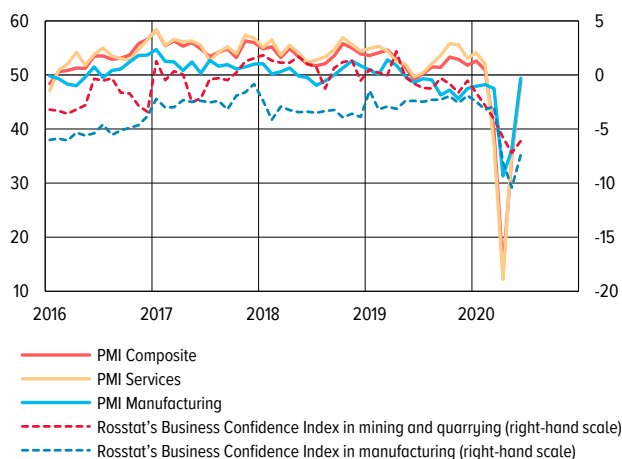
Contribution to annual growth, pp



Sources: Rosstat, Bank of Russia calculations.

BUSINESS SURVEYS: PMI AND ROSSTAT'S  
BUSINESS CONFIDENCE INDICES (SA)

Chart 11



Sources: IHS Markit, Rosstat, Bank of Russia calculations.

In June, the output of both food products and other goods increased (SA). A considerable rise was observed in the output of potato processing products and a range of meat and cheese products. The output of household appliances and textiles significantly expanded. Conversely, the production of special clothing shrank as a result of the slowing spread of the coronavirus in Russia (Annex; Charts 5 and 6).

**Electricity, gas, steam and water.** The output of electric power slightly increased in June, month-on-month. Contrastingly, water supply went down (SA). In annualised terms, this industry continued to make a slight negative contribution to the growth of industrial output.

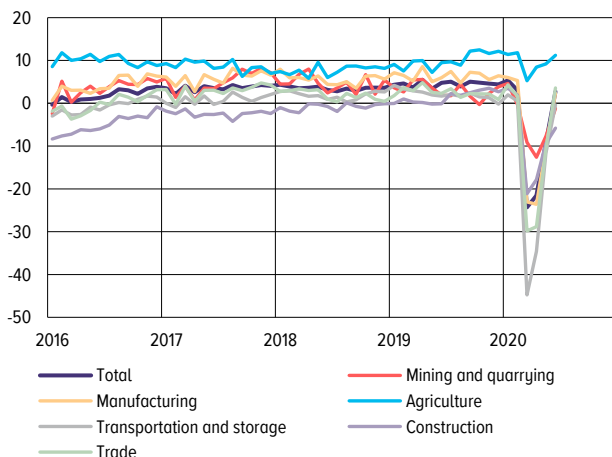
**Business surveys.** Russia's composite PMI recovered to 48.9 (vs 35.0 in May; Chart 11). This rise was boosted by the easing of the restrictions in a significant portion of Russian regions and the gradual revival of demand, first of all in the domestic market. This is confirmed by the volumes of new domestic orders which increased for the first time since May 2019.

Nonetheless, this index still remains below 50 points, which is a sign that the deterioration of business sentiment persists. PMI equalled 47.8 in the service sector (vs 35.9 in May), and 49.4 in manufacturing (vs 36.2 in May).

According to the monitoring of businesses carried out by the Bank of Russia, the Business Climate Index<sup>2</sup> also rose substantially in June, returning into positive territory (Chart 12). The estimates of the current situation and expectations improved most significantly among agroindustrial, manufacturing and trade enterprises. This is explained by both the progressive cancellation of the restrictions in Russia and the expansion of governmental support to the industries most affected by the coronavirus pandemic.

Rosstat's Business Confidence Indices (alternative indicators of economic activity) also demonstrated a rise in June, while still remaining negative. As in the previous month, companies mentioned insufficient demand in the domestic market, economic uncertainties, and high taxes among the factors hindering output growth.

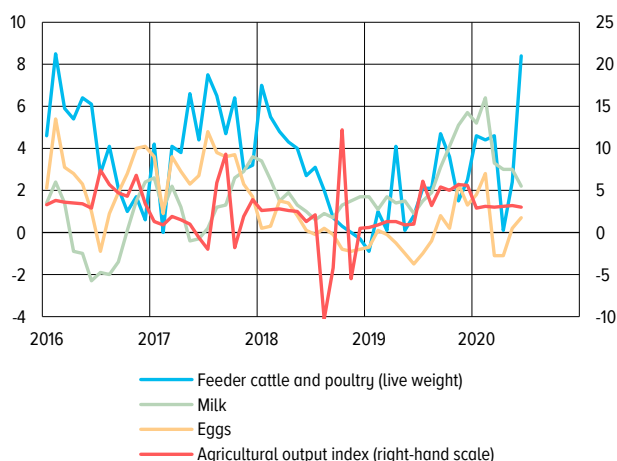
<sup>2</sup> The Bank of Russia's Business Climate Index shows actual and expected output and demand trends based on respondent companies' estimates.

BANK OF RUSSIA'S BUSINESS CLIMATE INDEX (SA) *Chart 12*

Source: Bank of Russia's monitoring of businesses.

AGRICULTURE *Chart 13*

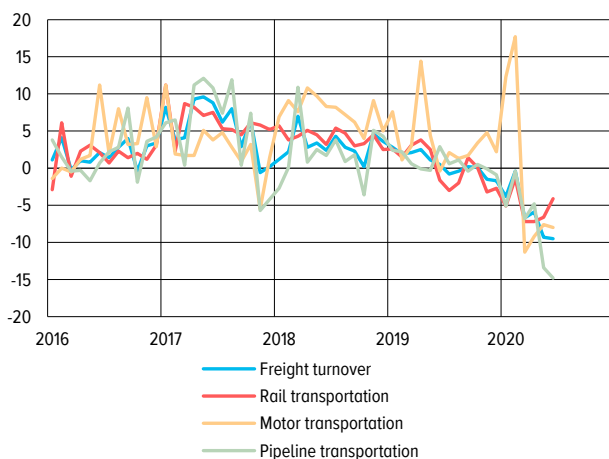
% change on the same month last year



Source: Rosstat.

FREIGHT TURNOVER *Chart 14*

% change on the same month last year



Source: Rosstat.

**Agriculture.** In June, the annual growth of agricultural output reached 3.0% (vs +3.2% in May; Chart 13). Reviving demand supported meat output. Egg and milk output also trended upwards.

The weather was favourable for sowing in the majority of Russian regions; therefore, spring sowing 2020 was completed as normal. The South of Russia started the harvesting campaign. The soil drought in a number of southern regions affected winter crop yields. Nonetheless, Russia's Ministry of Agriculture maintains its grain harvest forecast for 2020 at the level of 122.5 million tons, which is slightly above the previous year's reading (+1.1%). According to independent experts' estimates, gross grain yield in 2020 will exceed last year's result by 3–6%. Grain supply will be sufficient to meet demand in the domestic and external markets.

**Transport.** The annual decrease in railway transportation continued to slow down in June, for the third consecutive month (-4.1% in June; -6.6% in May; -7.2% in April; Chart 14). This positive trend was driven by the growing transportation of construction materials, as well as grain and grain products amid reviving economic activity in Russian regions. Conversely, rail transportation of coal, ferrous metals, oil and petroleum products continued to contract, being dragged down by sluggish external demand. The decline rate in passenger railway transportation remained double-digit.

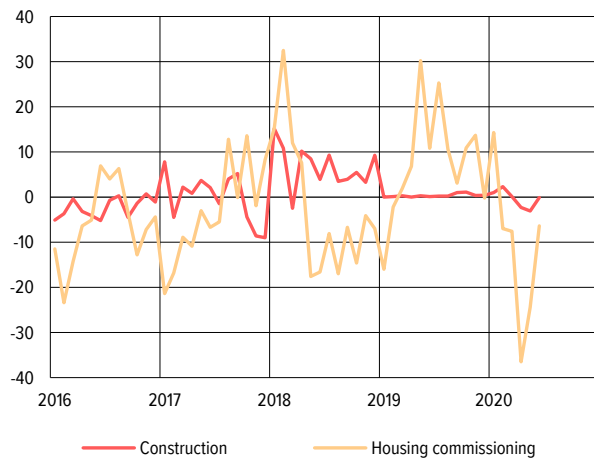
As for other transport types, freight turnover did not demonstrate any slowdown of its decrease. The overall reduction in freight turnover totalled 9.5% in June (vs -9.3% in May). As in the previous month, the major drag on the total performance was pipeline transportation due to the oil production cuts in Russia (see the section 'Mining and quarrying').

**Construction.** The volume of construction works expanded in June, nearly returning to its 2019 average (-0.1% in June; -3.1% in May, in annualised terms; Chart 15). The decrease in housing commissioning significantly slowed down. As the restrictions affecting economic activity are lifted, the volume of construction works will continue to bounce back. The reduction in mortgage rates will be an

## CONSTRUCTION

Chart 15

% change on the same month last year

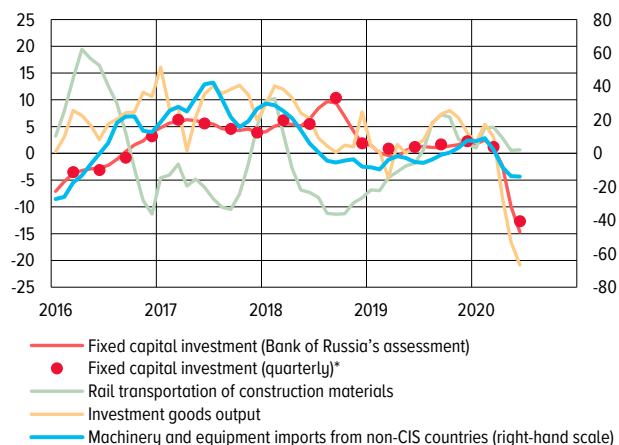


Source: Rosstat.

## INVESTMENT ACTIVITY INDICATORS

Chart 16

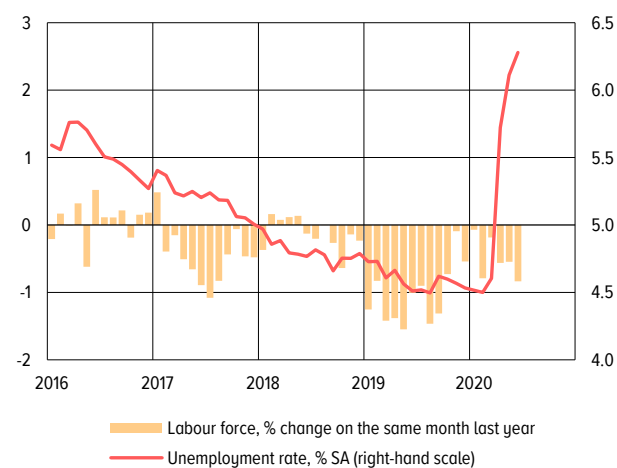
% 3MMA



\* Fixed capital investment in 2020 Q2 – Bank of Russia's assessment.  
Sources: Rosstat, Federal Customs Service, Russian Railways, Bank of Russia calculations.

## UNEMPLOYMENT AND LABOUR FORCE

Chart 17



Sources: Rosstat, Bank of Russia calculations.

additional contributor to the rise in the primary housing market. However, due to the actual slump in households' incomes and increased unemployment, the recovery is expected to be gradual (see the section 'Labour market and incomes').

## Investment activity

According to the Bank of Russia's assessment, investment activity was up in June (SA), month-on-month (after its decline over the previous three months). This was confirmed by the majority of indirect indicators of investment demand. Construction material transportation continued to grow. Imports of engineering products also expanded, while remaining notably below the readings recorded last year. The output of investment goods stayed close to its previous month's level. Concurrently, fixed capital investment in Q2 remained at its five-year low.

As assessed by the Bank of Russia, the annual decline in fixed capital investment continued. This was confirmed by the downward trend in investment goods output, which decreased even more than in the previous month, and the persisting decline in imports of engineering products, year-on-year (Chart 16).

As production and logistics chains are restored, investment activity is expected to recover. However, this process will presumably take a long time.

## Labour market and incomes

**Employment.** The decline in labour demand slowed down in June 2020 amid the partial cancellation of the restrictions and the resumption of production activity. Owing to the subsidies supporting wage payments and zero interest rate loans granted to maintain employment, companies managed to limit the scale of layoffs. Unemployment rose to 6.3% (SA) (vs 6.1% in May; Chart 17). The number of unemployed increased (SA) by 0.1 million individuals over the month. Moreover, the number of requests to employment agencies continued to grow even faster (SA) (by 0.6 million people over the month), which was largely associated



## WAGES

Chart 18

% change on the same period last year

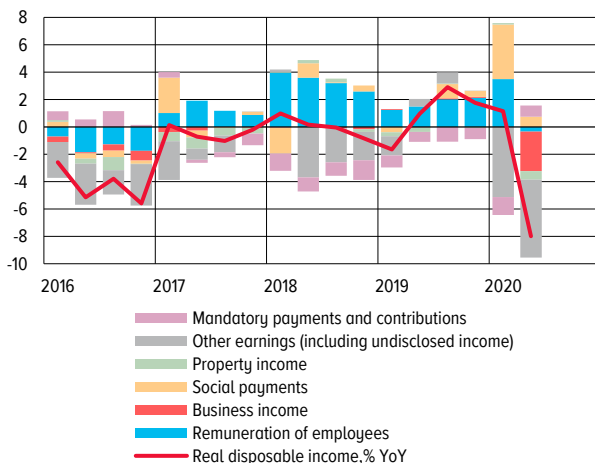


Sources: Rosstat, Bank of Russia calculations.

## HOUSEHOLD REAL DISPOSABLE INCOME

Chart 19

Contribution to annual growth, pp

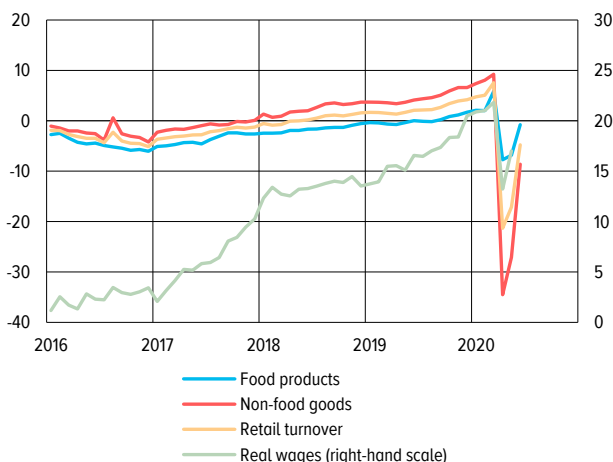


Sources: Rosstat, Bank of Russia calculations.

## RETAIL TURNOVER AND REAL WAGES

Chart 20

% growth on December 2015, SA



Sources: Rosstat, Bank of Russia calculations.

with the increase in the maximum unemployment compensation to 12,100 rubles (one minimum monthly wage), payments to families with children,<sup>3</sup> and the launch of a simplified system for verifying the information of applicants requesting unemployment compensations.

**Wages.** The annual growth of nominal wages sped up to 4.0% in May (vs +1.0% in April; Chart 18). This rise was boosted by temporary factors, including incentive payments to medical staff and the shift in the seasonality of a part of payments in the mining and quarrying industry. The service sector (hotels and restaurants; culture and sports) continued to face the most notable decline in wages. Real wages were up by 1.0% (vs -2.0% in April), which was associated with low annual inflation.

**Household incomes.** In 2020 Q2, household real disposable money income decreased by 8.0% in annualised terms (vs +1.2% in Q1; Chart 19). Business income and other (including undisclosed) earnings declined the most. For the first time since 2017, mandatory payments became a positive contributor to the income trend, which was driven by the reduction in the tax base and the deferral of advance payments for individual entrepreneurs. Incomes were also significantly supported by budget-funded anti-crisis payments. According to the Bank of Russia's assessment, they approximated 0.8 trillion rubles, or 6% of overall incomes.

## Consumption and savings

**Retail trade and commercial services to households.** Amid the cancellation of the restrictions affecting the trade and service sectors, the revival of consumer activity accelerated in June 2020 (SA), with retail turnover gaining 14.9% compared to the previous month (vs +5.3% in May; Chart 20). Non-food sales demonstrated a considerable recovery: turnover in this segment expanded by a record 25.4% (SA). Growth was also observed in the food segment, specifically 6.5% (SA). Nonetheless, the rise in both segments offset only one-half of the slump caused by the quarantine, which

<sup>3</sup> Resolution of the Government of the Russian Federation No. 844, dated 10 June 2020, 'On Amending Certain Regulations of the Government of the Russian Federation'.

## CONSUMER ACTIVITY INDICATORS IN 2020

Chart 21

% change on the same period last year

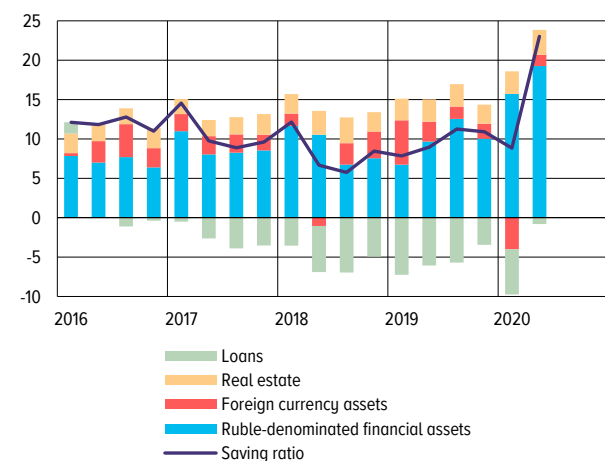


\* Retail turnover for Rosstat.  
Sources: Rosstat, SberData laboratory.

## SAVING RATIO

Chart 22

% of household disposable income, SA



Sources: Rosstat, Bank of Russia, Moscow Exchange, Bank of Russia calculations.

was associated with the remaining restrictions and decreased household incomes.

The annual decline in retail turnover slowed down to -7.7% (vs -19.2% in May; Chart 21). The service sector shrank by 34.5%, which was close to previous months' readings (vs -39.5% in May). According to up-to-date figures, consumer activity continued to bounce back in the first half of July, with spending in the non-food segment exceeding last year's readings. Contrastingly, demand for services is recovering at a much slower pace, being dragged down by the remaining restrictions in this sector.

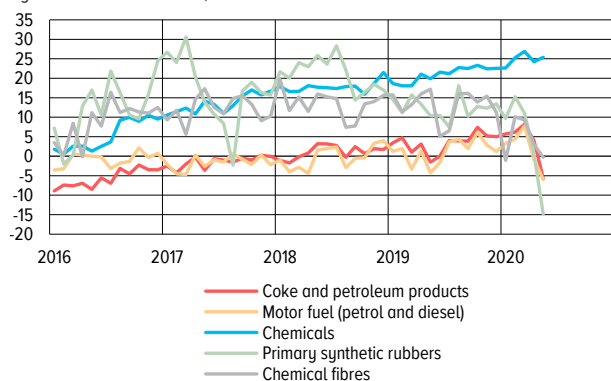
**Consumer sentiment.** In July, consumer sentiment continued to improve. According to InFOM's [seventh telephone survey](#), the portion of individuals complaining about deteriorated financial standing decreased. Concurrently, the percentage of respondents reporting an improvement in their financial standing significantly rose (8%) for the first time. The portion of respondents who had resumed normal consumption trended up (from 10% in June to 15% in July).

**Saving ratio.** The saving ratio surged to 23% (SA) in 2020 Q2 (vs 8.8% in Q1; Chart 22), which was largely driven by limited consumption during the lockdown period and the suspension of travel. Due to higher uncertainty, households increased demand for cash and short-term deposits, which accelerated the growth of ruble-denominated assets. Contrastingly, the rise in consumer and mortgage lending paused in Q2, after elevated demand for these loans in March.

## Annex

PETROLEUM PRODUCTS, CHEMICAL SUBSTANCES  
AND PRODUCTS Chart 1

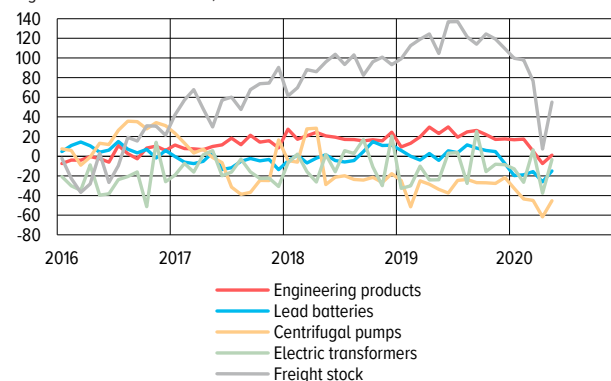
% growth on December 2015, SA



Sources: Rosstat, Bank of Russia calculations.

ENGINEERING PRODUCTS Chart 4

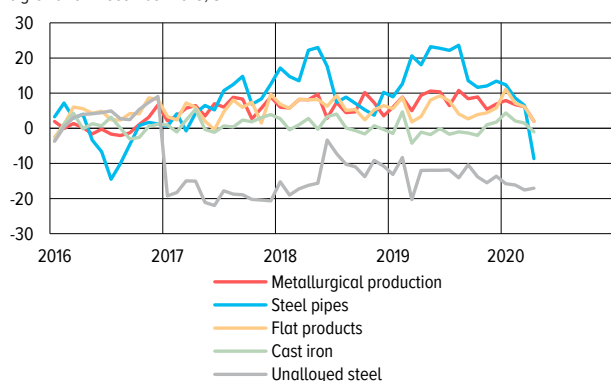
% growth on December 2015, SA



Sources: Rosstat, Bank of Russia calculations.

METALLURGICAL PRODUCTION Chart 2

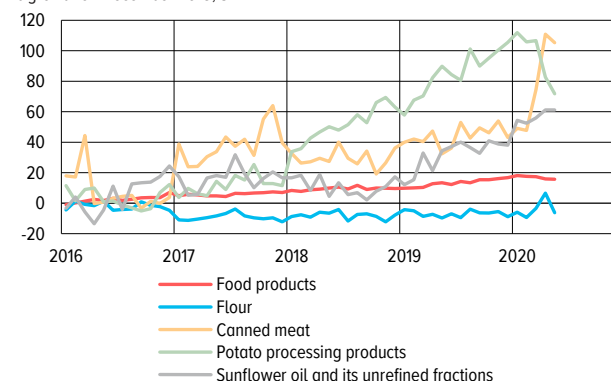
% growth on December 2015, SA



Sources: Rosstat, Bank of Russia calculations.

FOOD PRODUCTS Chart 5

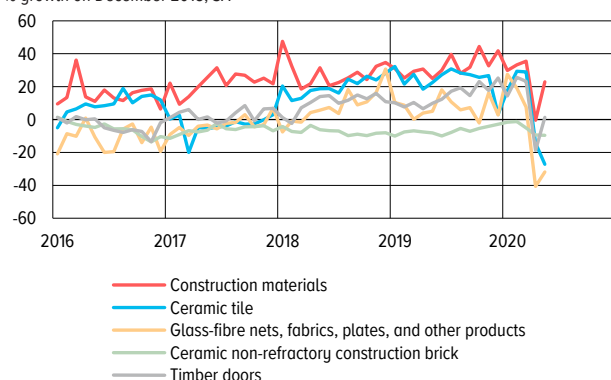
% growth on December 2015, SA



Sources: Rosstat, Bank of Russia calculations.

CONSTRUCTION MATERIALS Chart 3

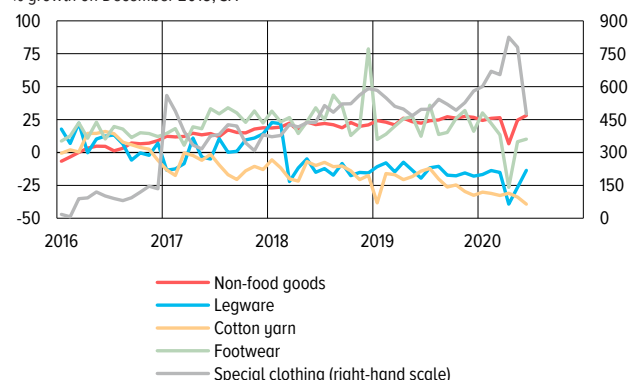
% growth on December 2015, SA



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 – 22.07.2020.

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](mailto:svc_analysis@cbr.ru).

This commentary was prepared by the Monetary Policy Department.

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