



Bank of Russia



ECONOMY

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Information and analytical commentary

28 February 2020

Economy: Facts, Assessments and Comments (January 2020)

The annual growth of production activity slightly slowed down in January 2020 as compared to December 2019. The downward trend in the mining and electric power industries explained by, among other factors, the abnormally warm weather was the major drag on the growth rate of industrial output. The decrease in freight turnover, primarily in railway and pipeline transportation, sped up. Conversely, demand indicators mostly increased. Leading indicators of investment activity evidenced that fixed capital investment preserved its upward trend. Consumer sentiment remained high. The growth of retail turnover accelerated compared to December. The unemployment rate stayed close to its record low, with labour demand expanding. The growth of real wages sped up, driven by, among other factors, slower inflation. The Bank of Russia estimates that the increase in domestic demand and the acceleration of budget spending, including within national projects, will boost economic activity. As a result, GDP will rise by 1.5–2.0% in 2020. However, there is still a significant risk to the forecast, that is, weaker external demand amid a possible slowdown in the global economy, including due to the spread of the coronavirus and other factors.

CORE ECONOMIC INDICATORS

(growth, % YoY, unless indicated otherwise)

Table 1

	2018	2019	Q4 2019	December 2019	January 2020
Output of goods and services by key industry	3.1	2.0	2.4	2.4	...
Industrial output	3.5	2.3	1.8	1.7	1.1
Construction	6.3	0.6	0.9	0.4	1.0
Freight turnover	2.7	0.6	-0.8	-1.3	-4.4
Agricultural output	-0.2	4.0	5.3	5.6	2.9
Retail turnover	2.8	1.6	2.0	1.9	2.7
Wholesale turnover	3.8	1.9	9.3	9.7	7.9
Paid services to households	1.4	-0.9	-1.5	-1.3	1.9
Unemployment rate, seasonally adjusted* (% of labour force)	4.8	4.6	4.6/4.5	4.6/4.5	4.7/4.5
Nominal wages	11.6	7.5	8.2	10.1	...
Real wages	8.5	2.9	4.6	6.9	...
Real household disposable money income	0.1	0.8	1.1	-	-

*Bank of Russia assessment.

Source: Rosstat.

Production activity

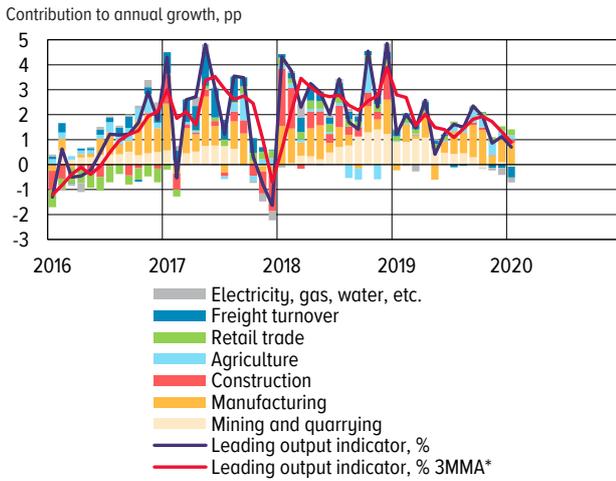
Leading output indicator. In January, the leading output indicator showing production activity across a broad range of industries slightly declined in annual terms (Chart 1). Decreases in freight turnover, mining and the output of electric power, gas and water were the major drags on the growth rate of business activity. The contribution of the agricultural industry somewhat reduced. Contrastingly, the contribution of construction works to the increase in output expanded. This is in line with the rise in construction material transportation

and the output of cement, brick and most intermediate products.

Industrial output. In January 2020, [Rosstat reviewed](#) the 2018–2019 industrial output dynamics and switched the methodology for measuring the weight ratios of representative goods in the output index calculation from 2010 to the reference year 2018. As a result of this review, the 2019 assessment of the annual industrial output growth remained almost the same (2.3% vs 2.4% prior to the review), while for 2018 it considerably increased (to 3.5% vs 2.9% before the review). The assessments of the output growth rates in mining and quarrying

LEADING OUTPUT INDICATOR

Chart 1



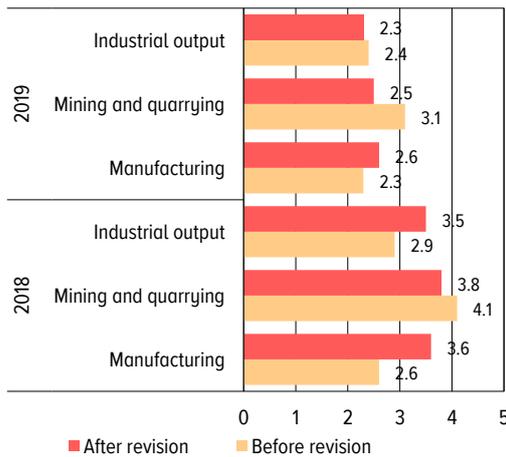
were revised downwards, while substantially rising in manufacturing (Chart 2).

The annual growth of industrial output slowed down to 1.1% in January 2020 compared to 1.7% in December (Chart 3). In January, the estimated annual output growth rate, adjusted for calendar effects, remained the same as in December (1.1%). Compared to the previous month, the seasonally adjusted (SA)¹ industrial output declined by 0.2%. This decrease was primarily caused by the downward trends in the mining and electric power industries, which, in turn, resulted from the abnormally high average temperature fixed in January and other temporary factors. However, the output of intermediate and consumer goods increased.

INDUSTRIAL OUTPUT ASSESSMENTS BEFORE AND AFTER DATA REVISION

Chart 2

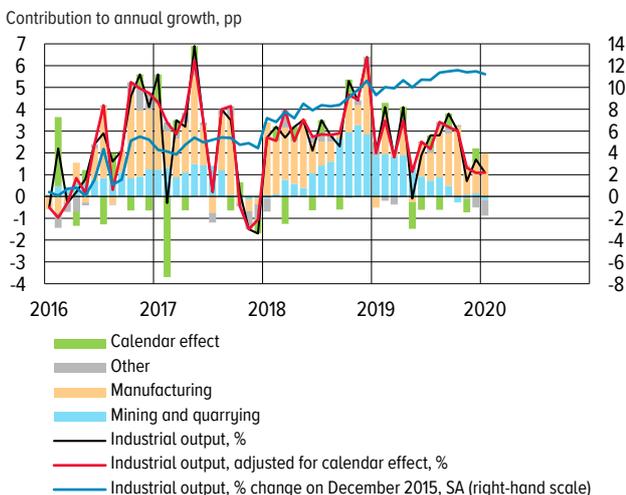
% YoY



Source: Rosstat.

INDUSTRIAL OUTPUT

Chart 3



Raw material output. The output of raw materials (SA) shrank in January compared to the previous month (Chart 4). In addition, the decline in natural gas production accelerated due to the record warm weather in Europe and large gas volumes in European gas holders. Moreover, gas output also reduced amid the decline in demand for energy commodities, which was associated with the warm weather and lower supplies to China due to the coronavirus outbreak. Contrastingly, oil output in January increased – this is because data on gas condensate were excluded from the calculation of the output quota under the OPEC+ agreement. Overall, the seasonally adjusted output of raw materials has remained the same since 2018 Q4.

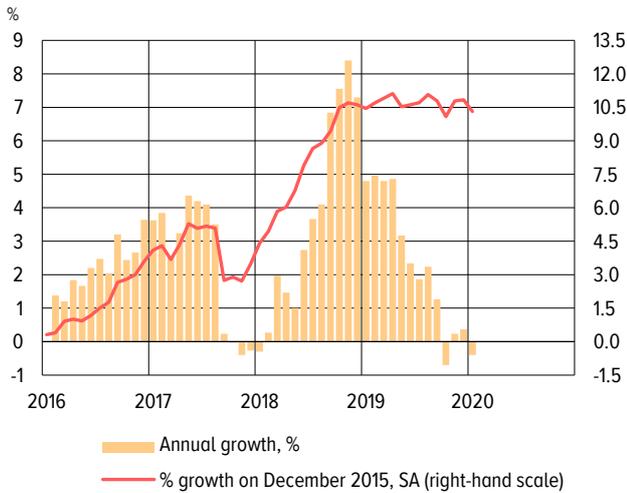
Intermediate goods output. In January, the growth rate of intermediate goods output (SA) remained at the level recorded in the previous month (Chart 5), generally preserving the upward trend that had formed in 2019.

After a substantial decline in September–November 2019 largely caused by weak external demand, the output in metallurgy was restored. The output of petroleum products significantly exceeded last year’s average readings, which was associated with high demand for these goods in the chemical industry. In addition, the output of petroleum products was pushed by

¹ It should be noted that Rosstat has reviewed the data for 2015–2019, yet has published the revised assessments only for the last two years. As the information for 2015–2017 is updated, the Bank of Russia may revise its assessments of the seasonally adjusted dynamics of industrial production and the output in particular industries.

RAW MATERIALS

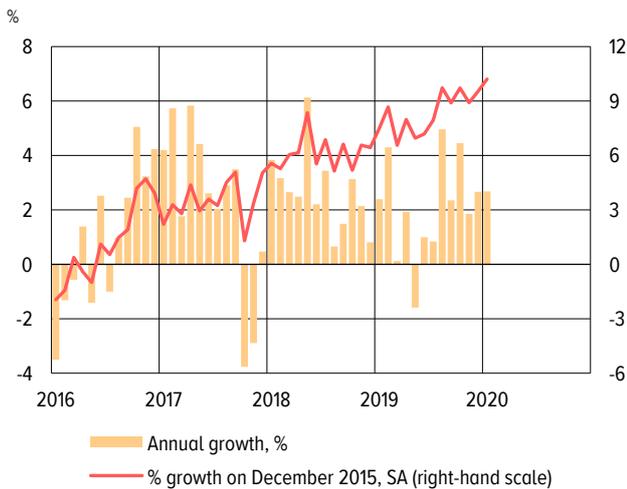
Chart 4



Sources: Rosstat, Bank of Russia calculations.

INTERMEDIATE GOODS

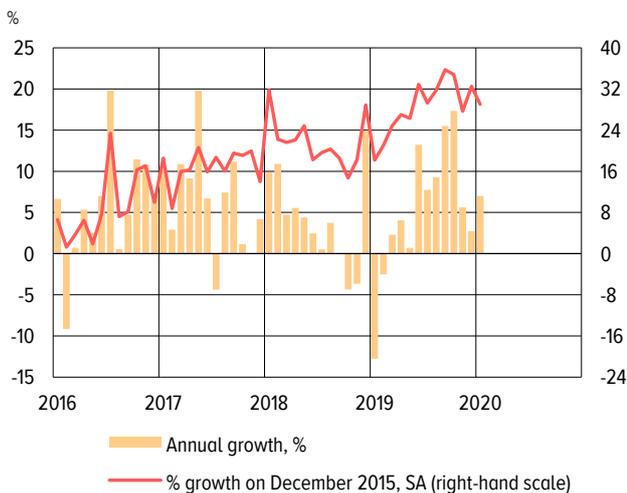
Chart 5



Sources: Rosstat, Bank of Russia calculations.

INVESTMENT GOODS

Chart 6



Sources: Rosstat, Bank of Russia calculations.

the opening of new enterprises manufacturing plastic products within the governmental import substitution programme.

The output in the woodworking industry, namely of plywood, wood boards, wood panels and veneers, notably shrank in January. This decline was largely the result of the tightening of the measures aimed at counteracting illegal exports of raw timber as processed wood products.

Investment goods output. The output of investment goods (SA) demonstrated a negative trend in January (Chart 6). Overall, the output in this area remains at the levels recorded in 2019 H2.

The notable reduction in the output of construction materials was mostly caused by a decline in the output of steam boilers. Contrastingly, the output of mineral construction materials, including brick and cement, expanded in January.

The main contributor to the shrinkage of engineering products output was the dynamics of the output of other vehicles,² which may be associated with the fulfilment of a number of large orders at the end of 2019. Moreover, the output of motor vehicles generally continued to decline, affected by weak domestic demand. Conversely, the output of machinery and equipment, particularly of agricultural machinery, substantially expanded, against the background of funds allocations for the implementation of the Programme on State Subsidies to Agricultural Machinery Manufacturers (Programme 1432).³

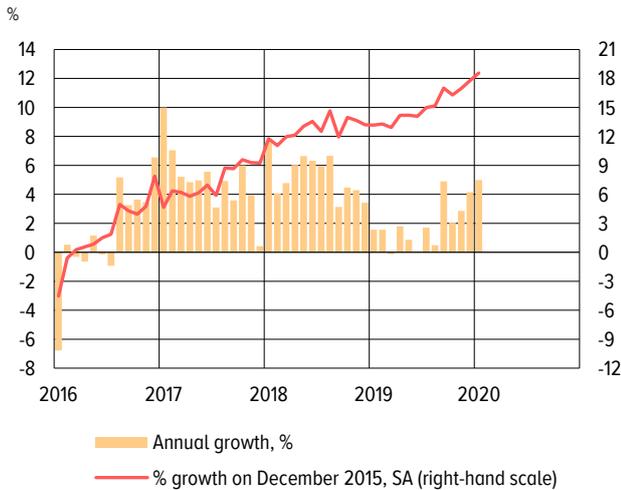
Consumer goods output. The output of consumer goods (SA) continued to sustainably expand in January, maintaining the upward trend recorded since mid-2019 (Chart 7). That said, various product groups showed diverse dynamics. Thus, food output (SA) continued to increase, with the growth rate accelerating across

² Manufacture of rail locomotives and rolling stock; manufacture of aircraft, including spacecraft; construction of ships and boats; manufacture of fighting vehicles; manufacture of other transport vehicles and equipment not included in other groups.

³ Programme 1432 provides for the granting subsidies to Russian manufacturers of agricultural machinery in the amount of 10% of its cost. According to Russia's Ministry of Agriculture, the allocations to subsidise discounts for agricultural machinery purchases approximate 8 billion rubles in 2020.

CONSUMER GOODS

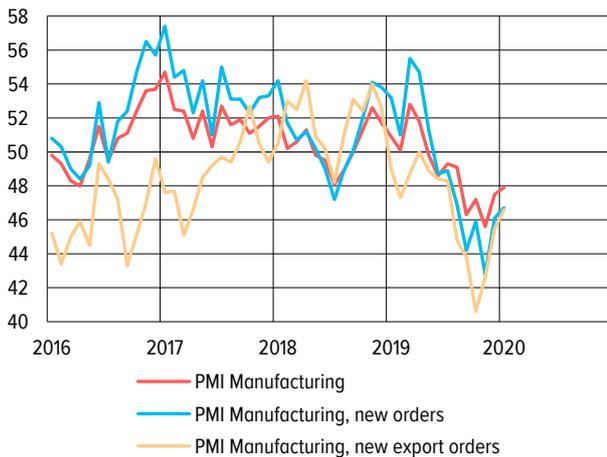
Chart 7



Sources: Rosstat, Bank of Russia calculations.

COMPANIES' ESTIMATES OF DEMAND FOR THEIR PRODUCTS (SA)

Chart 8



Source: IHS Markit.

almost all product categories. Furthermore, the output of sunflower oil, milk, meat and meat products increased most notably amid the rise in the agricultural output.

Contrastingly, the output of non-food goods (SA) shrank in January, after its temporary growth in December. The output of clothing, household appliances and medicines also decreased. Overall, the output was supported by the manufacture of footwear and printed products. The generally negative trend in non-food output despite growing household demand could result from, among other things, sales of earlier accumulated stocks of finished products and an increase in imports.

Business surveys. The composite PMI rose to 52.6 in January (hereinafter, SA), against 51.8 in December. That said, its components changed in a diverse manner. The growth of economic activity in the services sector (services PMI: 54.1 in January vs 53.1 in December) accelerated owing to larger volumes of new orders. Moreover, the growth rate of volumes of new export orders was the highest since last October. At the same time, Russia's manufacturing PMI remained close to the previous month's level: 47.9 in January against 47.5 in December. Despite a slight increase, the index stayed below 50 for the ninth consecutive month, evidencing subdued manufacturing activity (Chart 8). According to the survey, volumes of new orders continued to shrink both in the external and domestic markets, although at a slower pace than in the previous month. In addition, the expectations indices also changed in a moderate way across most major industries. These indices are based on the Bank of Russia's enterprise monitoring data.⁴ Other leading indicators changed in a diverse manner. Rosstat's business confidence index in the mining industry significantly dropped amid the decline in the output of commodities, while rising in manufacturing sectors.⁵

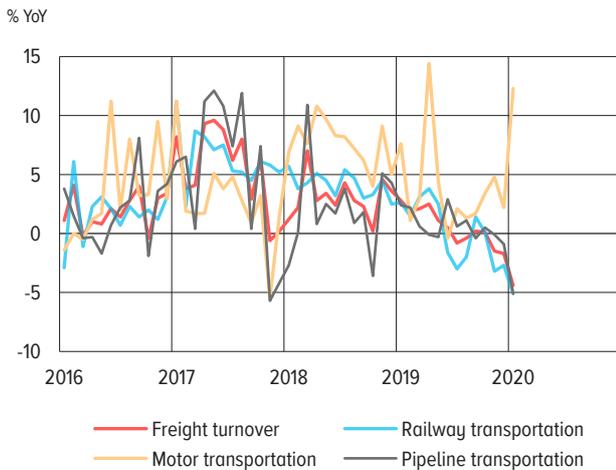
Transport. The decrease in railway transportation sped up in January, to 5.1%

⁴ For more details on the monitoring of enterprises, refer to <http://www.cbr.ru/mp/>.

⁵ Rosstat and IHS Markit indices give contradictory signals regarding the economic conditions, which may be associated with differences in both the samples of surveyed enterprises and the calculation methodologies.

FREIGHT TURNOVER

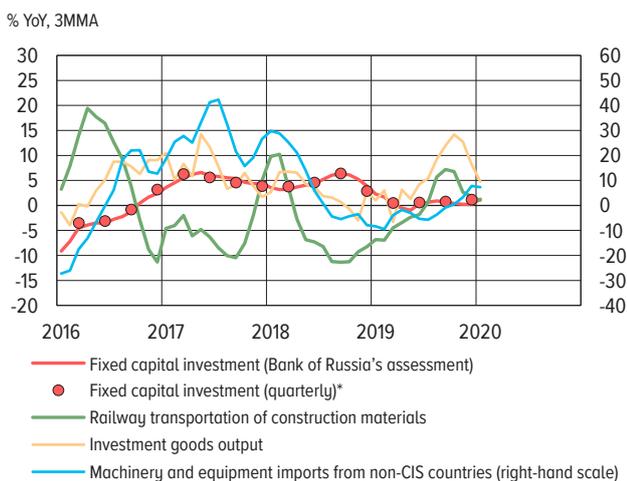
Chart 9



Source: Rosstat.

INVESTMENT ACTIVITY INDICATORS

Chart 10

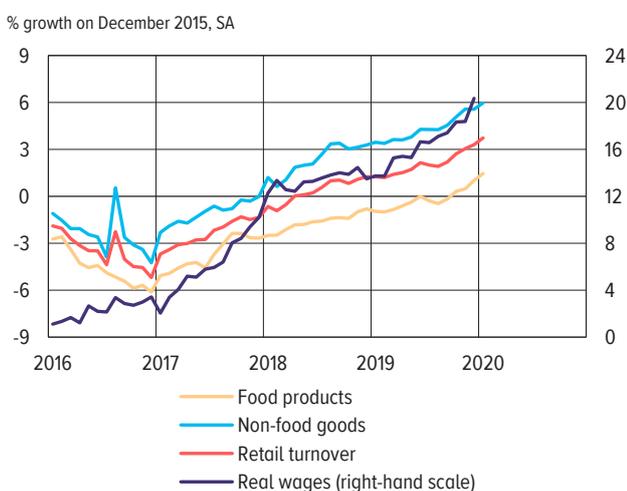


* 2019 Q4 – Bank of Russia assessment.

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

RETAIL TURNOVER AND REAL WAGES

Chart 11



Sources: Rosstat, Bank of Russia calculations.

in annual terms (Chart 9). Furthermore, railway transportation, including exports of coal, ferrous metals and grain, substantially shrank. Conversely, construction material transportation increased, indicating a potential revival in construction. In addition, pipeline transportation noticeably declined amid weak external demand and the shrinkage of oil and gas production. That said, motor transportation continued to expand, driven by, among other things, a quicker increase in retail and wholesale turnover in recent months.

Investment activity

Overall, indirect investment activity indicators also evidenced that the annual dynamics of fixed capital investment maintained the upward trend in January 2020 (Chart 10). Moreover, investment demand continued to increase, which pushed engineering imports, railway transportation of construction materials, and investment goods output in annual terms.

As expected, more extensive federal budget spending and easing of monetary conditions will continue to support fixed capital investment in 2020. In view of the above and given last year's low base, the annual growth rate of fixed capital investment may reach 2.0–2.5% in 2020 Q1.

Consumer activity

In January, the growth rate of retail turnover (SA) increased to 0.4% against 0.2% in December (Chart 11).

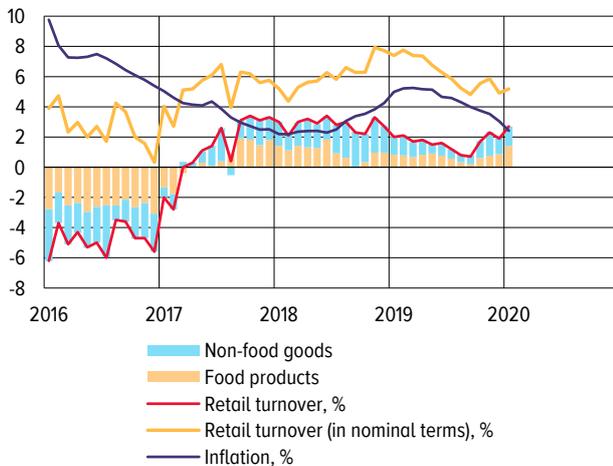
Moreover, the growth accelerated across both food and non-food product categories. Food sales increased at a pace close to the December level, which was the highest over two previous years. Consumer demand was significantly supported by a rise in real wages (see the section 'Labour market'). The consumer sentiment index remained high, primarily owing to respondents' greater optimism about Russia's economic prospects.⁶ In turn, this may suggest a further improvement of consumer activity and higher demand growth rates in the next months.

⁶ Refer to the information and analytical commentary *Inflation Expectations and Consumer Sentiment* (No. 1 (37), January 2019).

RETAIL TURNOVER

Chart 12

Contribution to annual growth, pp



Sources: Rosstat, Bank of Russia calculations.

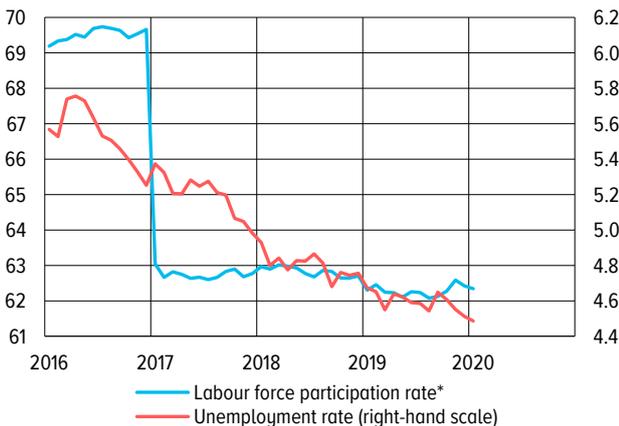
The annual growth rate of retail turnover sped up to 2.7% in January 2020 (vs 1.9% in December) (Chart 12). In addition to the above factors, this trend was driven by the low base effect of the previous year when consumer demand slightly decreased following demand satisfaction in the previous months and inflation acceleration.⁷ The Bank of Russia estimates that retail turnover will expand by 2.8–3.2% in 2020 Q1 in annual terms amid further growth of household income and inflation slowdown. The annual growth rate will be driven in Q1 by the leap-year effect, that is, the additional calendar day in February.

Labour market

UNEMPLOYMENT RATE AND LABOUR FORCE

Chart 13

% SA

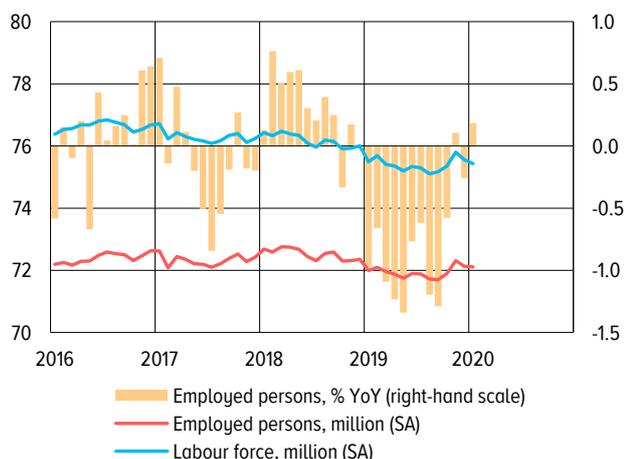


* Beginning in 2017, Rosstat added persons aged 72+ to the sample surveyed. This entailed a substantial decline in the labour force participation rate.
Sources: Rosstat, Bank of Russia calculations.

According to the Bank of Russia's estimates, the unemployment rate (SA) remained at 4.5% in January 2020 (Chart 13). The record-low unemployment rate is explained by a reduction in the number of unemployed, with the size of the labour force staying close to the 2019 readings owing to the continuing rise in employment (Chart 14). This is confirmed by the IHS Markit survey. According to its findings, labour demand in the economy has generally maintained an upward trend since autumn 2019 (PMI Composite Employment equalled 50.3 SA in January 2020), Chart 15).

EMPLOYED PERSONS AND LABOUR FORCE

Chart 14



Sources: Rosstat, Bank of Russia calculations.

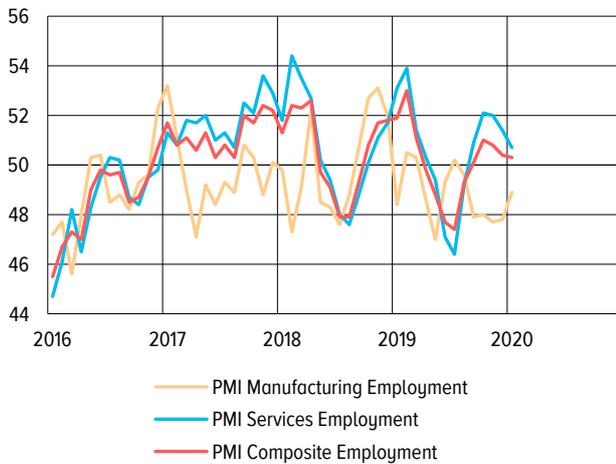
Growth of nominal wages surged in December 2019 to 10.1% in annual terms (vs 6.3% in November) (Chart 16). The major contributor to the growth acceleration was the dynamics of wages in the financial and general government sectors (20.3% and 16.9%, respectively). The substantial rise in remuneration in financial and insurance companies was most likely associated with the significant improvement of their financial performance⁸ in 2019. The annual growth of wages in the public sector is in line with the December data on the execution of

⁷ According to the Bank of Russia's assessments, consumers partially satisfied their deferred demand in September–November 2018, expecting price growth in 2019 due to the VAT rate increase. See the information and analytical commentary *Economy* (No. 1 (37), January 2019).

⁸ Based on Rosstat's data, the growth of financial institutions' consolidated financial results totalled 79.5% over the period January–November 2019 compared to the same period in 2018.

PMI IN EMPLOYMENT (SA)

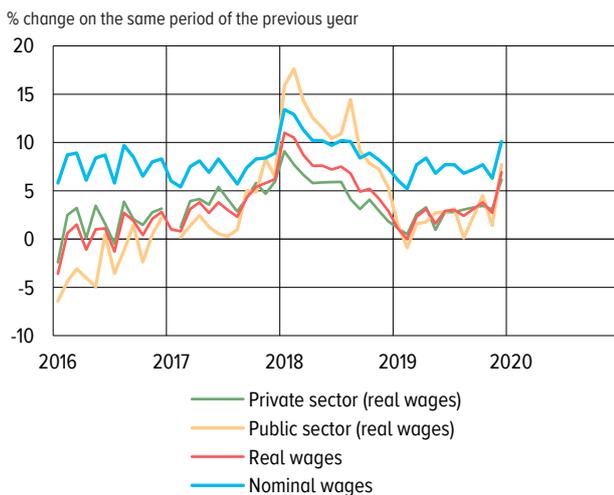
Chart 15



Source: IHS Markit.

WAGES

Chart 16



Sources: Rosstat, Bank of Russia calculations.

the consolidated budget.⁹ Overall, real wages in the economy increased in December by 6.9% in annual terms (vs 2.7% in November). According to the Bank of Russia's assessments, the growth of real wages accelerated in both the public and private sectors (7.7% and 6.1%, respectively)

On average, the annual growth rate of real wages over 2019 amounted to 2.9%, which is in line with the Bank of Russia's forecast (2.5–3.0%).¹⁰ In 2020 Q1, the growth of real wages is expected to speed up to 3.5–4.0% owing to inflation slowdown and the indexation of remuneration by 5.4% in the social and cultural sectors.¹¹ In addition, the leap-year effect may also support the annual growth of wages.

Forecast

Overall, the currently available macroeconomic statistics for January evidence declining growth of production activity. In the next months, significant risk to it may be caused by a weakening of external demand amid a possible slowdown in the global economy, affected by the coronavirus outbreak and other external factors.

However, the improved dynamics of real wages and accelerated budget spending, including within the implementation of national projects, contribute to an increase in domestic demand. According to the Bank of Russia's estimates, the GDP growth rate in 2020 will reach 1.5–2.0%.

⁹ According to the Report 'On the execution of the consolidated budget of the Russian Federation and budgets of government extra-budgetary funds as of 1 January 2020', the growth rate of payroll expenses in December equalled 14.6% in annual terms.

¹⁰ See *Monetary Policy Report* No. 1 (29) (February 2020).

¹¹ See the *Guidelines for the Fiscal, Tax, and Customs and Tariff Policy for 2020 and the 2021–2022 Planning Period*.

Data cut-off date – 27.02.2020.

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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