



Bank of Russia



ECONOMY

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Information and analytical commentary

30 March 2020

Economy: Facts, Assessments and Comments (February 2020)

Both production and consumer activity in Russia demonstrated growth in February 2020. The leading output indicator was up across the majority of industries, partially owing to the leap-year effect. The output in mining and quarrying and the production of investment and intermediate goods increased. Investment activity expanded. The unemployment rate hit its new record-low. A rise in real wages supported consumer demand. However, the spread of the coronavirus pandemic and the restrictive measures being implemented by the governments both in Russia and abroad will entail a temporary, yet a substantial decline in economic activity in the next months. The time when the economy returns to the normal state will primarily depend on how soon the restrictions are eased. The Bank of Russia will factor in the impact of this period of low economic activity on the medium-term forecast of inflation, inflation expectations, and economic development.

CORE ECONOMIC INDICATORS
(GROWTH, % YOY, UNLESS INDICATED OTHERWISE)

Table 1

	2018	2019	2019 Q4	January 2020	February 2020
GDP	2.5	1.3	1.5–2.0*	–	–
Output of goods and services by key industry	3.1	2.0	2.4	1.8	...
Fixed capital investment	5.4	1.7	2.3	–	–
Industrial output	3.5	2.3	1.8	1.1	3.3
Construction	6.3	0.6	0.9	1.0	2.3
Freight turnover	2.7	0.6	-0.8	-3.4	-0.1
Agricultural output	-0.2	4.0	5.3	2.9	3.1
Retail turnover	2.8	1.6	2.0	2.7	4.7
Wholesale turnover	3.8	2.0	9.7	7.9	10.1
Paid services to households	1.4	-0.9	-1.4	1.9	0.9
Unemployment rate, seasonally adjusted* (% of labour force)	4.8	4.6	4.6 / 4.5	4.7 / 4.5	4.6 / 4.4
Nominal wages	11.6	7.5	8.2	9.1	...
Real wages	8.5	2.9	4.6	6.5	...
Real household disposable income	0.1	0.8	1.1	–	–

* Bank of Russia assessment.

Source: Rosstat.

Production activity

Leading output indicator. The leading output indicator showing annual dynamics of production activity across a broad range of industries considerably increased in February 2020 (Chart 1). This was mostly driven by the leap-year effect (an additional day), which improved the output in the majority of industries.

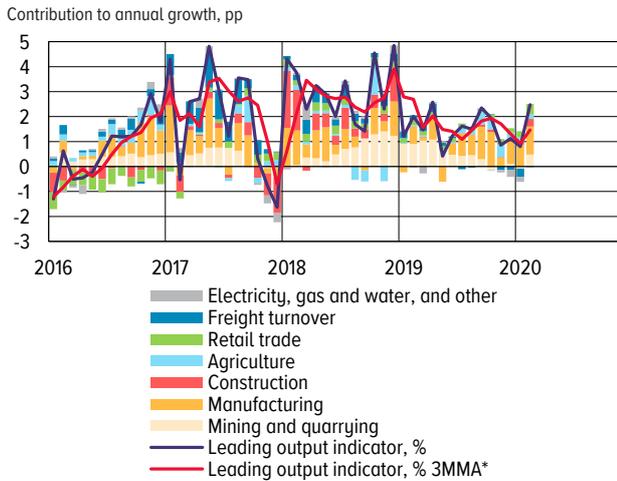
The positive contribution of the mining and construction sectors expanded. In addition, growth in retail sales amid the continuing rise in real wages also became a major driver. The adverse impact of the dynamics of freight turnover and electric power, gas and water production significantly decreased.

Industrial output. In February 2020, industrial output expanded by 0.4% compared to the previous month (seasonally adjusted; hereinafter, SA). Growth was recorded both in mining and quarrying and in a number of manufacturing industries (the output of intermediate and investment goods). The annual growth rate of industrial output sped up to 3.3% (vs 1.1% in January) (Chart 2). Adjusted for calendar effects, it equalled 1.3% (vs 1.1% in January).

Raw material output. The output of raw materials (SA) slightly increased in February compared to the previous month (Chart 3). It remains at the level recorded in 2019 (SA).

LEADING OUTPUT INDICATOR

Chart 1

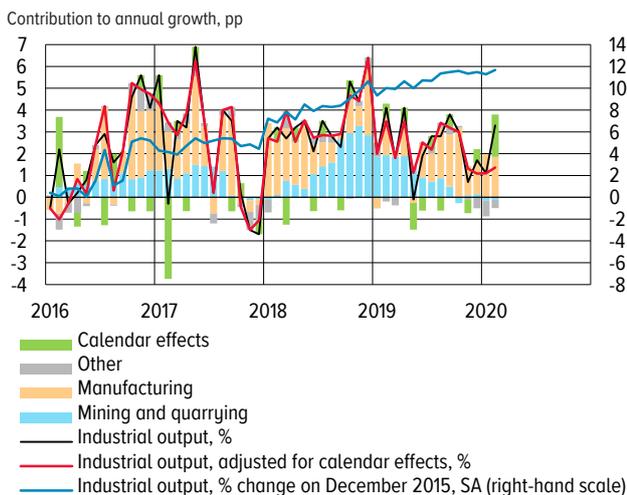


* Three-month moving average.

Sources: Rosstat, Bank of Russia calculations.

INDUSTRIAL OUTPUT

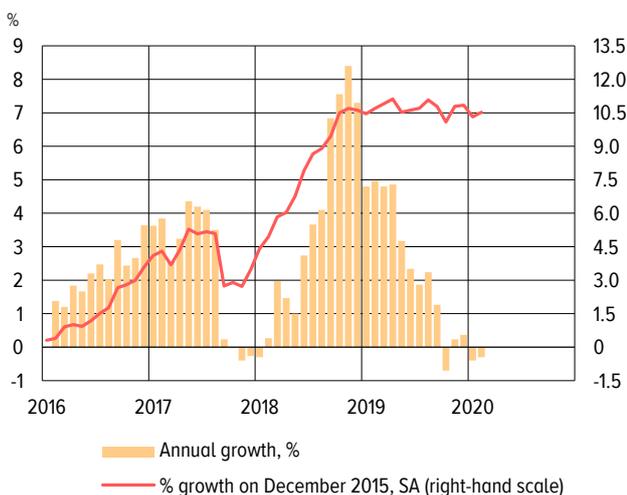
Chart 2



Sources: Rosstat, Bank of Russia calculations.

RAW MATERIALS

Chart 3



Sources: Rosstat, Bank of Russia calculations.

A substantial rise in the extraction of raw materials for manufacturing construction materials (rock, sand and clay) significantly contributed to the dynamics of the overall indicator in February. The output of oil remained stable as long as the OPEC+ agreement was effective. The output of natural gas stopped declining, while staying at its two-year low. Demand for gas in non-CIS countries partially restored as the air temperature in Europe returned to its long-term average readings, which supported the output of gas. The output of coal continued to shrink, dragged down by lower demand in China.

Intermediate goods output. The output of intermediate goods maintained the downward trend that had formed in late 2019 (SA) (Chart 4). The output of intermediate goods reached its four-year high in February.

The output expanded in most groups of intermediate goods. This was primarily driven by an increase in the output of petroleum products, and in particular, of straight-run gasoline amid higher demand for products manufactured from it (varnishes, paints, and plastics). A considerable rise in chemical industries was also pushed by an increase in the output of fertilisers against the background of expanded exports to Europe and higher domestic demand.

Conversely, the output in metallurgy shrank, which was associated with a decline in world demand amid the coronavirus outbreak and the suspension of manufacture in China due to the epidemic.

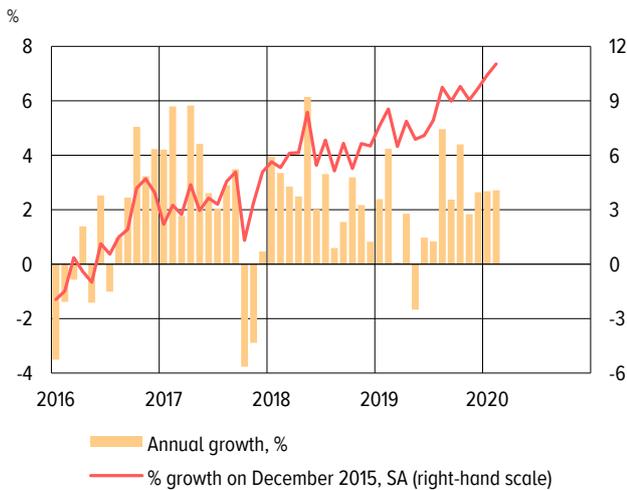
Investment goods output. The output of investment goods (SA) substantially increased in February (Chart 5), coming close to its four-year high. In addition, the upward trend was recorded both in the output of construction materials and in machine-building.

The output of construction materials expanded owing to a faster growth in construction volumes since the beginning of 2020, including amid the accelerated implementation of national projects¹ and the abnormally warm weather in

¹ Over the period January–February 2020, spending on the national projects ‘Comprehensive Plan for the Modernization and Expansion of Trunk Infrastructure’ and ‘Safe and High-Quality Roads’ increased 2.5 times in annual terms.

INTERMEDIATE GOODS

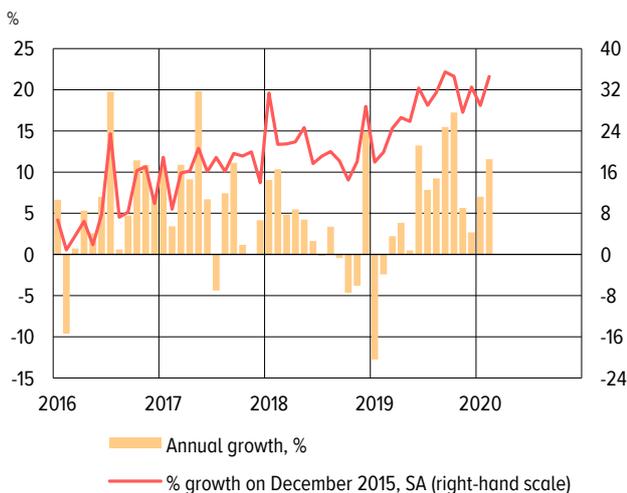
Chart 4



Sources: Rosstat, Bank of Russia calculations.

INVESTMENT GOODS

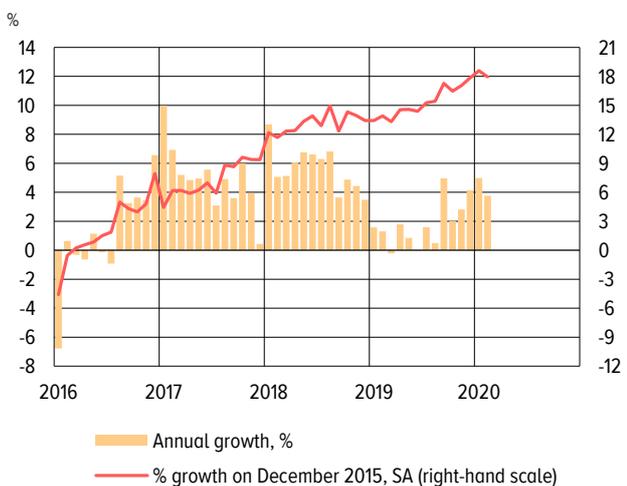
Chart 5



Sources: Rosstat, Bank of Russia calculations.

CONSUMER GOODS

Chart 6



Sources: Rosstat, Bank of Russia calculations.

most regions of the country. The output of basic mineral construction materials—brick, concrete products, and building finishes (ceramic tiles)—continued to increase. There was a considerable rise in the production of building structures and individual types of goods, the output of which is highly volatile (metallic cisterns and steam boilers).

The output of engineering products showed diverse dynamics. On the one hand, the output of electric equipment, machinery, and special-purpose equipment continued to expand. On the other hand, the downward trend in the output of motor vehicles persisted.

Consumer goods output. In February, the output of consumer goods adjusted downwards, to the level of December 2019 (SA) (Chart 6). The output of both food and non-food goods shrank.

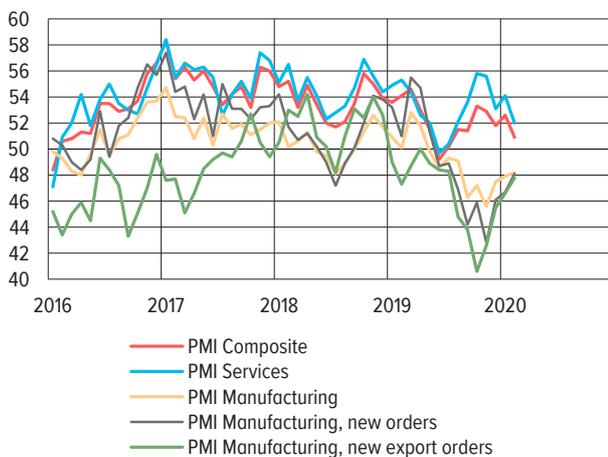
The output of most food products decreased after an intensive rise in the previous months. The upward trend continued in the output of milk and milk products, which was supported by a favourable pricing environment in the domestic market and larger supply of raw milk. The output of finished feed for animals expanded owing to a favourable situation in agriculture. However, the large-scale suspension of economic activity in China due to the coronavirus outbreak may entail a shortage of raw materials used to manufacture animal foodstuffs. In these conditions, the production of foodstuffs in Russia may considerably slow down or decrease in the next months.

The output of non-food goods maintained the downward trend, including in such categories as footwear, leather goods, and printed products. Contrastingly, the output of household appliances continued to expand amid growing consumer demand (refer to the section ‘Consumer activity’). The output of medicines materially increased, which was most probably the result of the news about the coronavirus infection.

Business surveys. The composite PMI in Russia dropped to its seven-month low in February, to reach 50.9 points (hereinafter, SA) (vs 52.6 points in January). As in the previous months, its components changed in a diverse manner (Chart 7). The growth of business activity

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

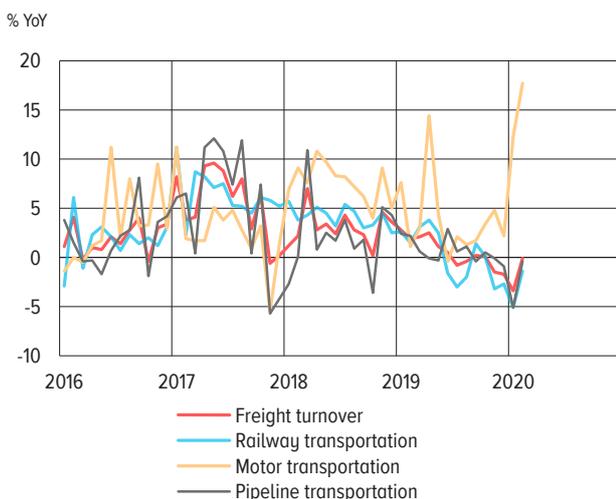
Chart 7



Source: IHS Markit.

FREIGHT TURNOVER

Chart 8



Source: Rosstat.

in the services sector substantially decelerated (52.0 in February vs 54.1 in January).

While slightly growing, the manufacturing PMI remained below 50.0 points for the ninth consecutive month, which evidenced a decline in business activity (48.2 points in February vs 47.9 points in January). According to the survey, the reduction in the volumes of new orders significantly slowed down both in the domestic and external markets. However, respondents reported a decrease in the stocks of raw materials and a considerable extension of their delivery periods. This may have a restraining effect on output in the next periods. In February, Rosstat's business confidence index² declined even more in the mining industry, while remaining close the previous-month reading in manufacturing sectors.

Transport. As external demand declined, railway transportation of exports (grain, ferrous metals, and coal) continued to shrink. In these conditions, rail freight turnover maintained the downward trend in February, for the fifth consecutive month (by 1.4%) (Chart 8). Pipeline transportation also showed negative dynamics, including due to a decrease in exports to non-CIS countries and unscheduled repairs on the Belarusian section of the Druzhba pipeline. Conversely, the growth of motor transportation sped up amid a rise in retail turnover. Overall, the reduction in freight turnover decelerated in February to 0.1% in annual terms (vs 3.4% in January). Adjusted for calendar effects, freight turnover declined by 2.0%.

Investment activity

Rosstat has significantly revised the 2018–2019 statistics on fixed capital investment. According to the new data, fixed capital investment increased by 2.3% in 2019 Q4, after its 1.7% rise in 2019 Q3 (in annual terms) (according to the previous assessment, 0.8% in Q3).

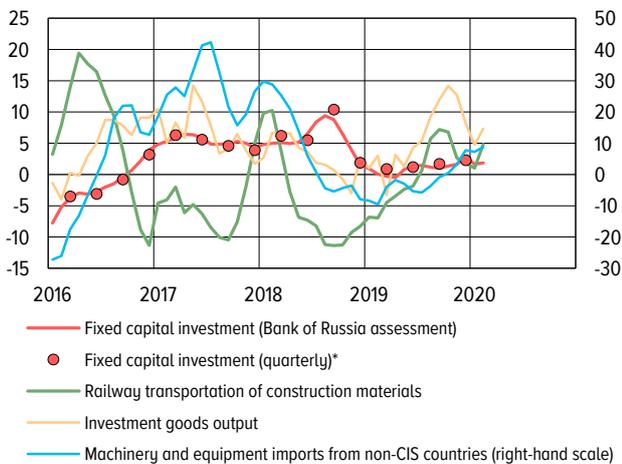
In February 2020, the growth of investment demand (SA) sped up compared to the previous

² Rosstat and IHS Markit indices give contradictory signals regarding economic conditions, which may be associated with differences in both the samples of surveyed enterprises and the calculation methodologies.

INVESTMENT ACTIVITY INDICATORS

Chart 9

% YoY, three-month moving average

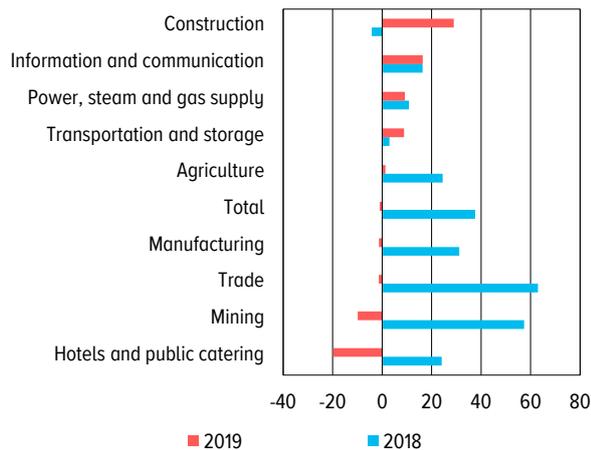


Sources: Rosstat, Federal Customs Service, Russian Railways, Bank of Russia calculations.

SALES PROFIT BY INDUSTRY

Chart 10

% on the previous year



Sources: Rosstat, Bank of Russia calculations.

month (Chart 9). The output of domestic investment goods expanded, returning to the readings of September–October 2019. Railway transportation of construction materials slightly increased. However, imports of engineering products from non-CIS countries decreased amid the weakening of the ruble.

In February, fixed capital investment also demonstrated positive dynamics in annual terms. The growth of investment activity was supported by more extensive federal budget spending.³

Financial standing of large and medium-sized enterprises

In 2019, large and medium-sized businesses demonstrated rising financial indicators. In particular, corporate profit increased by 7%, while losses went down by 37.6%, compared to 2018. As a result, overall financial performance improved by 17.5%. However, it may be too early to interpret this trend as an upturn in financial standing that would pave the way for a material increase in investment activity. The 2019 rise in businesses' financial indicators was largely driven by a reduction in the negative balance of non-operating income and expenses. It totalled 2% of overall financial performance in 2019, compared to 21% in 2018, which could be associated with loan repayments by several majors.

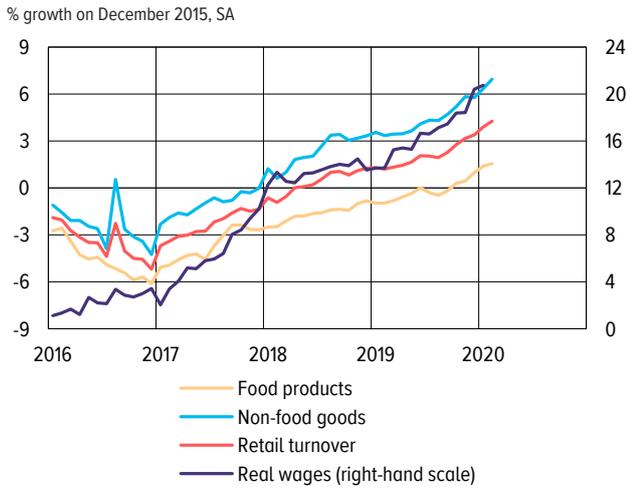
At the same time, sales revenue grew by as little as 2% in 2019, and profit declined by 1%, compared to 2018 (Chart 10). Sales profit increased in construction (29%), information and communication (16%), the power sector (9%), transportation and storage (9%), and agriculture (1%). Contrastingly, sales profit in commerce and manufacturing shrank by 1%, in mining and quarrying – by 10%, and in the hotel and catering business – by 20%.

In the next months, consequences of the deteriorating epidemiological situation may adversely affect both production activity and financial performance of enterprises.

³ Over the period January–February 2020, federal budget spending increased by 25.3% in annual terms.

RETAIL TURNOVER AND REAL WAGES

Chart 11



Sources: Rosstat, Bank of Russia calculations.

Consumer activity

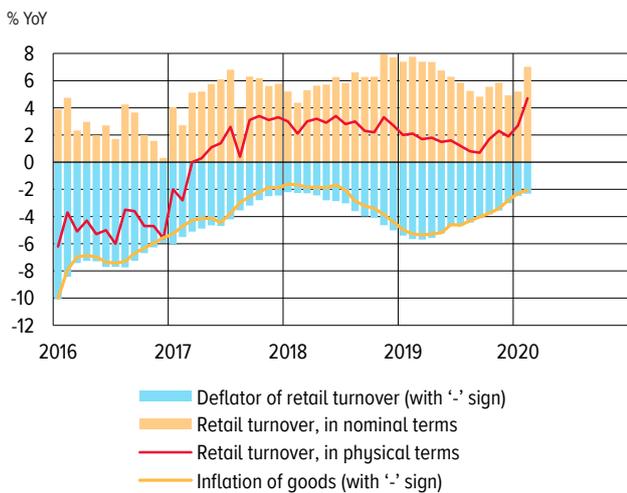
In February 2020, the monthly growth rate of retail turnover generally remained at the level of the previous month (SA) (Chart 11). However, different groups of products showed diverse dynamics. Food products demonstrated a slower increase in sales, while the growth of non-food sales sped up, largely because of a considerable rise in sales of personal care products amid the news about the coronavirus outbreak worldwide.

Consumer demand was supported by the continuing growth of households' labour income. In February 2020, inFOM's consumer sentiment index remained above the levels recorded in early 2019.⁴ In addition, its subindices evidenced an improvement in respondents' sentiment about the quality of life and unemployment in the near future.

The growth of retail turnover sped up to 4.7% in annual terms (vs 2.7% in January) (Chart 12), which was largely driven by calendar effects. According to the Bank of Russia's assessment, the contribution of the additional days-off⁵ to the increase in retail turnover totalled 1.5 percentage points. Adjusted for calendar effects, retail sales expanded by 3.2%.

RETAIL TURNOVER

Chart 12



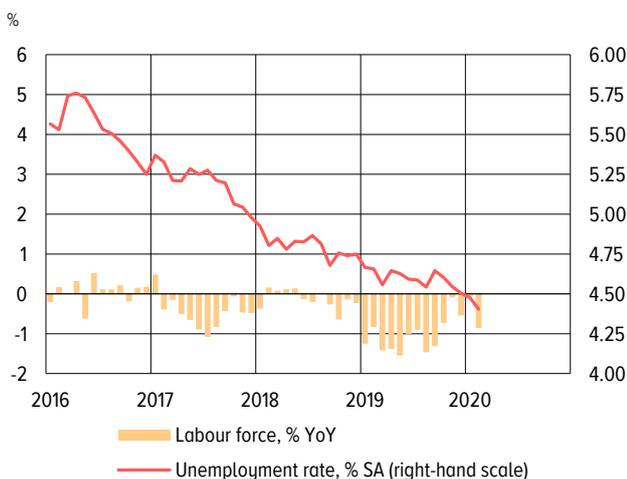
Sources: Rosstat, Bank of Russia calculations.

Labour market

In February 2020, the unemployment rate hit its record-low, reaching 4.4% (SA) (vs 4.5% in January) (Chart 13). This was driven by a reduction in the labour force, which was primarily associated with long-term demographic trends. As assessed by the Bank of Russia, the unemployment rate could also decrease owing to the reduction in the number of unemployed (because of people who stopped looking for a job). According to the IHS Markit PMI survey, the respondent companies generally reported a decrease in employment for the first time since autumn 2019 (PMI Composite Employment: 49.8, SA) (Chart 14). The indicator of pressure in the labour market, representing the ratio of active CVs to job vacancies, (hh.index) suggested

UNEMPLOYMENT RATE AND LABOUR FORCE

Chart 13



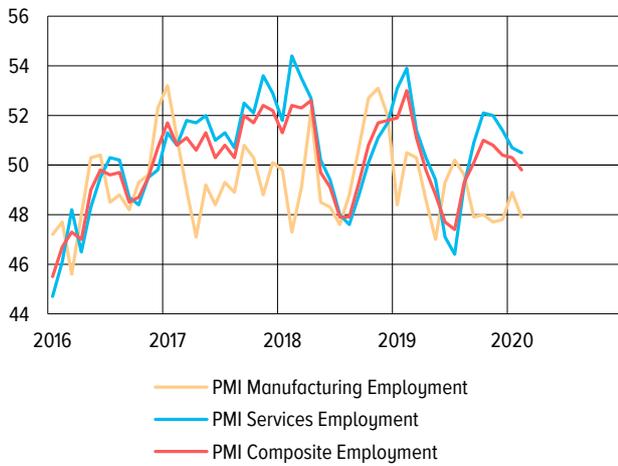
Sources: Rosstat, Bank of Russia calculations.

⁴ Refer to the information and analytical commentary [Inflation Expectations and Consumer Sentiment](#) (No. 2 (38), February 2020).

⁵ There were 8 days-off in February 2019, and 10 days-off – in February 2020.

PMI IN EMPLOYMENT (SA)

Chart 14



Source: IHS Markit.

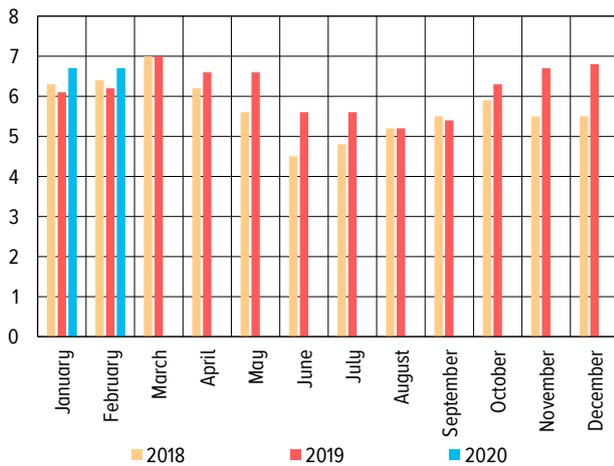
that competition among job-seekers increased. This indicator exceeded its readings of previous years, which evidences that competition in the labour market remains high and may have a restraining effect on wage growth (Chart 15).

The annual growth of nominal wages decelerated in January 2020, while staying high: 9.1% (vs 10.1% in December) (Chart 16). A considerable rise was recorded across all major industries. The increase in labour income was supported by, among other factors, the indexation of wages by 5.4% in the social and cultural areas. In real terms, the slowdown in wage growth was less notable generally across the economy (6.5% against 6.9% in December) owing to the deceleration of inflation.

HH.INDEX

Chart 15

Ratio of published CVs to vacancies

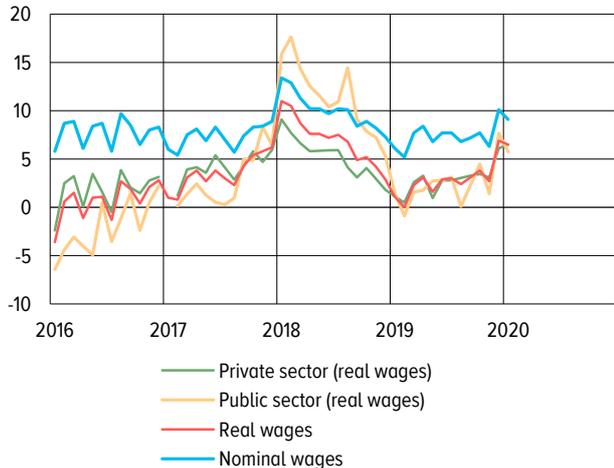


Source: hh.ru.

WAGES

Chart 16

% YoY



Sources: Rosstat, Bank of Russia calculations.

Data cut-off date – 24.03.2020.

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.

Cover photo: N. Chernysheva, Bank of Russia

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