



Bank of Russia



ECONOMY

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Information and analytical commentary

29 June 2020

Economy: Facts, Assessments and Comments (May 2020)

In May 2020, economic activity in Russia remained subdued, largely affected by the anti-coronavirus restrictions. Another material drag on industrial production was the reduction in mining output resulting from the renewal of the OPEC+ agreement. Nonetheless, the decline in seasonally adjusted monthly output slowed down in May compared to April. The output of consumer and investment goods started to bounce back. Consumer activity began to revive. The easing and complete cancellation of the restrictions across Russian regions will speed up the growth of economic activity in the next months. However, over the 2020 horizon both domestic and external demand will remain moderate, pushing consumer price growth rates downwards. The Bank of Russia forecasts that GDP will decline by 4–6% as of the end of 2020.

CORE ECONOMIC INDICATORS

(growth, % YoY, unless indicated otherwise)

Table 1

	2019	2019 Q4	2020 Q1	March 2020	April 2020	May 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	1.0	-9.9	-(10–11) ¹
Electricity consumption ²	1.2	1.1	-0.6	-1.1	-2.9	-5.4
Production activity						
Industrial output	2.3	1.8	1.5	0.3	-6.6	-9.6
Agricultural output	4.0	5.3	3.0	3.0	3.1	3.2
Construction	0.6	0.9	1.1	0.1	-2.3	-3.1
Freight turnover	0.6	-0.8	-3.8	-6.7	-5.8	-9.5
Wholesale turnover	1.6	8.4	10.0	9.8	-11.3	-12.5
ΔInventories (contribution to ΔGDP,pp)	0.5	2.0	0.5–1.5 ¹	–	–	–
Investment activity						
Fixed capital investment	1.7	2.3	1.2	–	–	–
Gross fixed capital formation	1.5	2.9	-(1.0–2.0) ¹	–	–	–
Labour market						
Unemployment rate, seasonally adjusted (% of labour force)	4.6	4.6/4.5	4.6/4.4	4.7/4.6	5.8/5.7	6.1/6.1
Nominal wages	9.5	8.2	8.8	8.6	1.0	...
Real wages	4.8	4.6	6.2	5.9	-2.0	...
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 ¹	–	–	–
Savings ratio	10.0	12.0	6.3	–	–	–
Retail turnover	1.9	2.1	4.4	5.7	-23.2	-19.2
Commercial services to households	-0.9	-1.4	-0.8	-5.4	-37.9	-39.5

¹ Bank of Russia assessment.

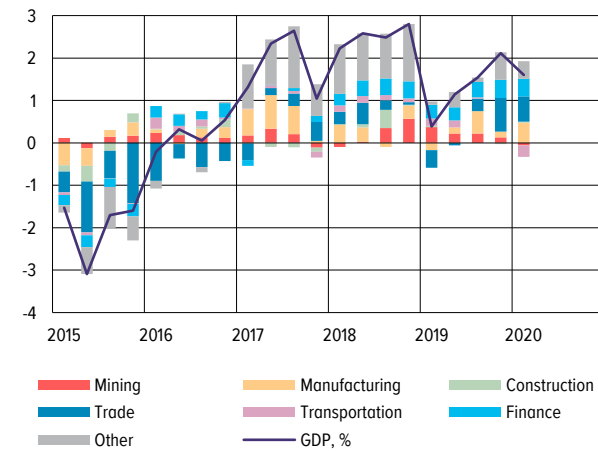
² Adjusted for calendar and temperature effects.

Sources: Rosstat, Bank of Russia calculations.

GDP (OUTPUT APPROACH)

Chart 1

Contribution to annual growth, pp

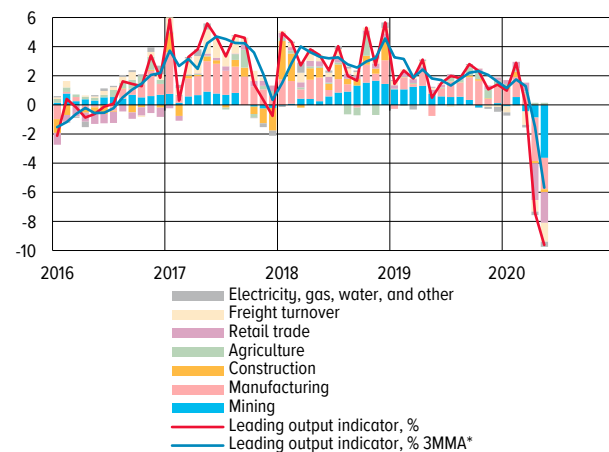


Sources: Rosstat, Bank of Russia calculations.

LEADING OUTPUT INDICATOR

Chart 2

Contribution to annual growth, pp



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

Sources: Rosstat, Bank of Russia calculations.

Aggregate output and leading indicators

GVA across industries. According to Rosstat, the annual growth of gross value added (GVA) across Russia's economic sectors totalled 1.7% in 2020 Q1 against 2.2% the quarter before. The annual gain was largely supported by manufacturing, trade, and finance (Chart 1). Concurrently, manufacturing industries substantially increased their contribution to the rise in the economy's overall GVA, compared to 2019 Q4. This was driven by the expanded output of consumer goods, predominantly in the food segment. The output of intermediate goods also trended up, pushed by the rise in metallurgical and petrochemical enterprises' outputs. The increase in the Russian economy's overall GVA was also driven by the expansion of value added in the general government sector resulting from the faster growth of budget spending, including within the implementation of national projects.¹

GDP forecast. The Bank of Russia expects that in the second quarter GDP may shrink by over 8% in annual terms, due to the material impact of the restrictions on economic activity and the decrease in external demand. Household final consumption and export trends will be the major drags on output. In the third quarter, the gradual easing of the restrictions both in Russia and abroad will pave the way for economic recovery. However, the annual rates of economic growth will remain negative in 2020 H2. The Bank of Russia forecasts that GDP will decline by 4–6% as of the end of 2020.

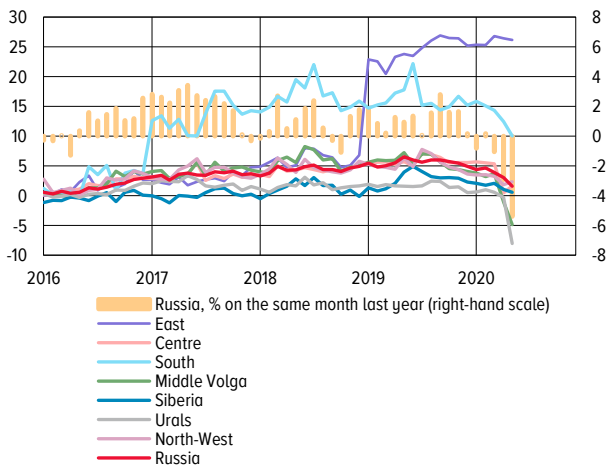
The **leading output indicator**² continued to go down in May, reaching -9.6% (vs -7.4% in April). Output contracted across the majority of industries, and most notably in mining, trade, and transport (Chart 2). Moreover, the negative contribution of mining and transport to the overall output expanded, following the renewal of the OPEC+ agreement on 1 May 2020 (see the sections 'Mining' and 'Transport'). Contrastingly, retail trade reduced its negative impact owing

¹ According to the Federal Treasury, budget spending in 2020 Q1 rose by 16.9% YoY.

² Bank of Russia's assessment. This indicator shows annual dynamics of production activity across key industries.

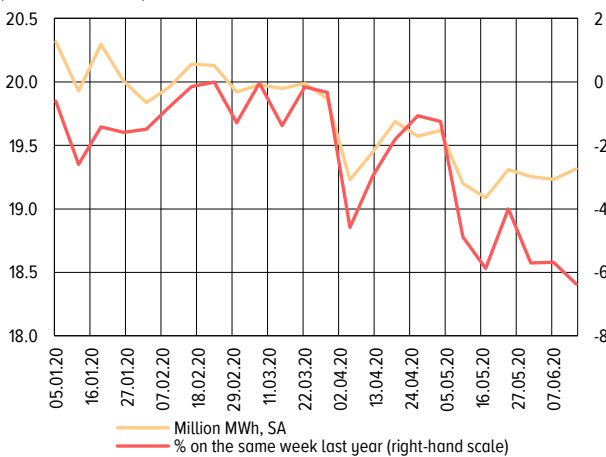
ELECTRICITY CONSUMPTION, ADJUSTED FOR CALENDAR AND TEMPERATURE EFFECTS (OVER A MONTH) Chart 3

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.

to the easing of the self-isolation restrictions in a considerable part of Russian regions (see the section 'Retail trade and commercial services to households').

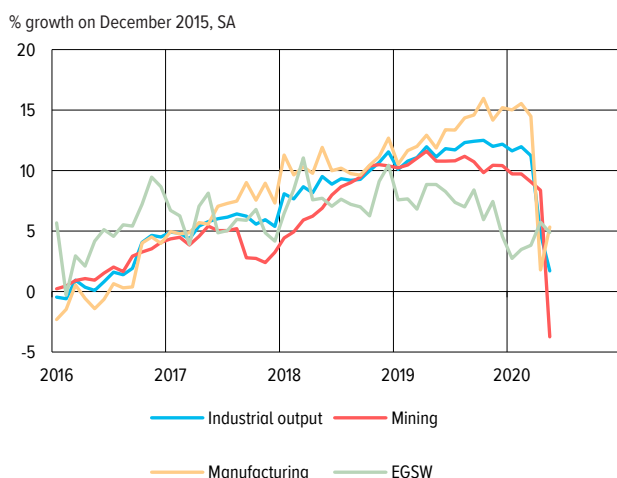
Electricity consumption. May recorded a significant decrease in electric power consumption, despite the easing of the restrictions. Furthermore, the decline in electricity consumption sped up from 0.8% to 1.4% in monthly terms, adjusted for seasonal and calendar effects (hereinafter, SA) and for temperature effects (Chart 3), and from 2.5% to 5.4% in annual terms. Broken down by region, the pace of the power consumption decrease was the highest in the Urals and the Middle Volga region³ due to a significant reduction in oil production, as well as in the South and in Siberia that were tightening their anti-coronavirus restrictions. The central part of Russia was gradually restoring electricity consumption amid the easing of the restrictions affecting economic activity.

Over the first fortnight of June, power consumption demonstrated weak growth amid a slow recovery of economic activity (Chart 4). The most significant rise in electricity consumption was recorded in Siberia.

³ The power consumption breakdown by region is based on the branches (united power systems) of JSC System Operator of the United Power System.

INDUSTRIAL OUTPUT

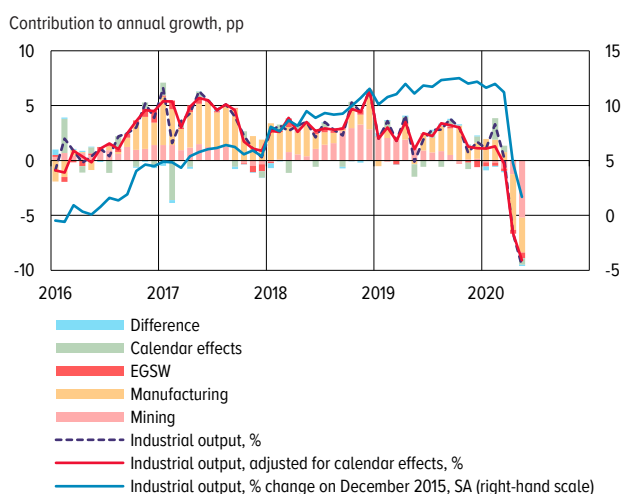
Chart 5



Sources: Rosstat, Bank of Russia calculations.

INDUSTRIAL OUTPUT

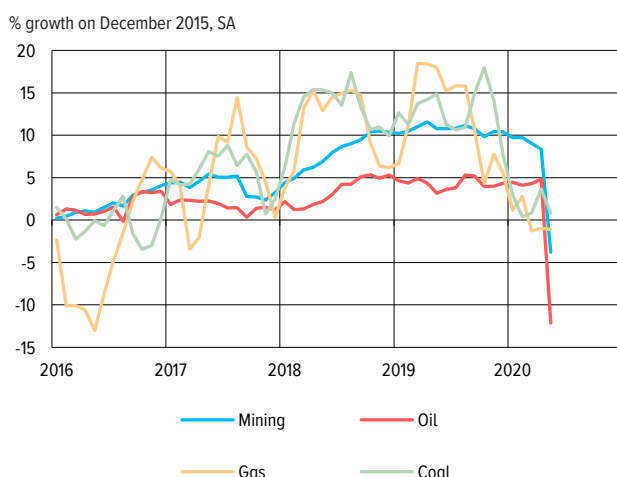
Chart 6



Sources: Rosstat, Bank of Russia calculations.

MINING AND QUARRYING

Chart 7



Sources: Rosstat, Bank of Russia calculations.

Production activity

Industrial output. In May, industrial output continued to shrink, although more slowly than in April (SA), returning to its September 2016 level (Chart 5). In annual terms, the decline in industrial output slowed down to 9.6% in May (vs -6.6% in April). Adjusted for calendar effects, industrial output contracted by 9.1% (vs -6.6% in April). A reduction was recorded across all industries, with shrinking mining production being the major contributor (Chart 6). Conversely, manufacturing sectors showed signs of revival.

Mining. The output in mining and quarrying noticeably contracted in May compared to the previous month (SA; Chart 7). This was associated with oil production cuts under the renewed OPEC+ agreement and weak external demand for the core Russian exports (gas and coal). Another reason for the coal production decrease was that Siberia and the Urals were tightening their anti-coronavirus restrictions affecting economic activity.

The year-over-year output in mining and quarrying adjusted for calendar effects continued to decrease considerably faster, specifically by 13.4% against 3.2% in April (Chart 8).

Manufacturing. The output in manufacturing adjusted upwards in May, while still staying substantially beneath its 2020 Q1 level. Although a part of enterprises resumed their operation after the end of the non-work days, they were unable to fully utilise their production capacities due to a shortage of orders (see the section 'Business surveys'). The output of investment and consumer goods partially recovered. The output of intermediate goods continued to contract (Chart 9).

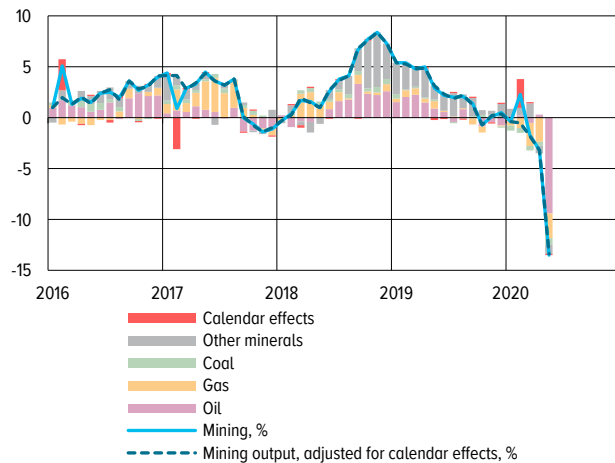
The year-over-year output in manufacturing shrank by 7.2% (vs -10.0% in April). Adjusted for calendar effects, the decline in the output was lower, equalling 6.2% (vs -10.0% in April). As assessed by the Bank of Russia, the major contributor to this reduction was the output of investment and intermediate goods (-3.9 pp and -2.5 pp, respectively; Chart 10).

Intermediate goods. In May, the output of intermediate goods contracted again. The output of petroleum products declined most

MINING AND QUARRYING

Chart 8

Contribution to annual growth, pp

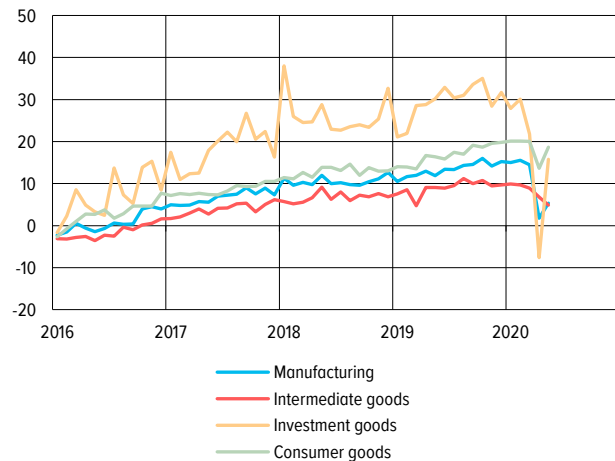


Sources: Rosstat, Bank of Russia calculations.

MANUFACTURING

Chart 9

% growth on December 2015, SA

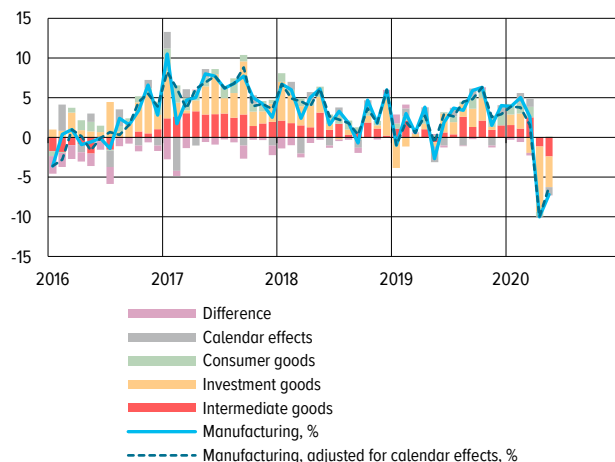


Sources: Rosstat, Bank of Russia calculations.

MANUFACTURING

Chart 10

Contribution to annual growth, pp



Sources: Rosstat, Bank of Russia calculations.

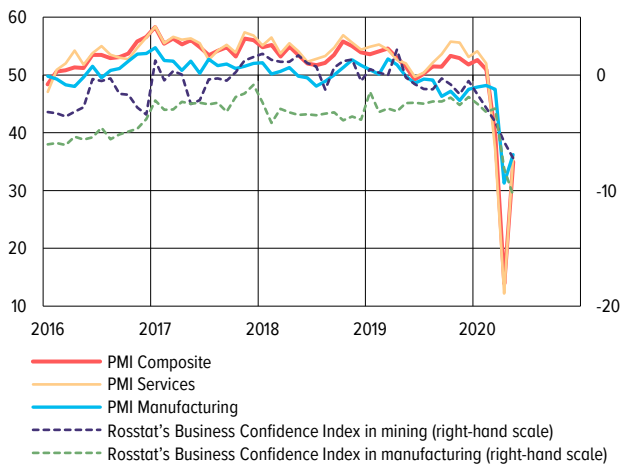
notably, including due to the reduction in motor fuel production caused by the closure of a range of oil refineries for scheduled repairs.⁴ The output in the metallurgical industry (steel, rolled products) continued to shrink amid declining external demand. The outputs of chemicals, rubber and plastic products were slowly reviving. Chemical production was supported by the output of fertilisers (Annex; Charts 1 and 2).

Investment goods. After its slump in the previous month, the output of investment goods partially bounced back in May, while still remaining considerably beneath its March 2020 level. In addition, the upward trend was recorded in both the output of construction materials and machine-building. The output of construction materials was recovering amid the easing of the self-isolation restrictions and the resumption of construction works in a number of Russian regions. The output of engineering goods rebounded to its 2016 Q3 level. This rise was driven by the progressive easing of the restrictions affecting economic activity and the expansion of the programmes supporting systemically important companies (Annex; Charts 3 and 4).

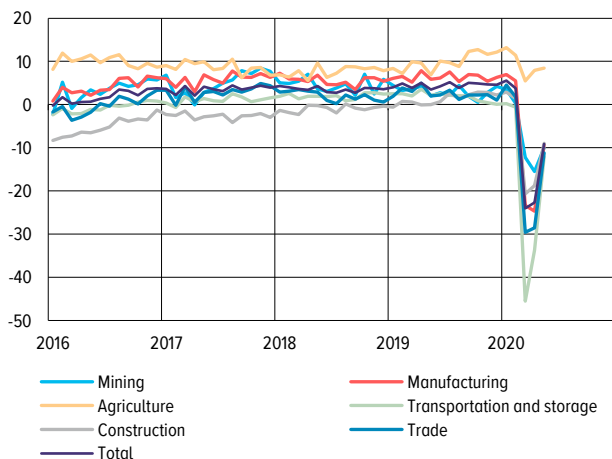
Consumer goods. The output of consumer goods significantly expanded in May (SA), mostly offsetting its April's decline. This was driven by a material increase in the output of a broad range of non-food goods boosted by the resumption of trade in this segment suspended for the lockdown period, as well as by gradually recovering consumer demand. The output of medical wear and medicines continued to demonstrate high growth rates. Moreover, the output of cars and household appliances started to bounce back.

Food output contracted in May (SA), which was largely caused by households' declining demand for non-perishable products. The output of flour, and fruit and vegetable products shrank most significantly (Annex; Charts 5 and 6).

⁴ Among other reasons, the decision to close oil refineries in May was driven by the expected considerable reduction in the difference between the domestic motor fuel price and the net back due to the OPEC+ deal renewal, as well as by the increase in the damping coefficient calculated based on the previous month's oil price. Moreover, the growth of petroleum products exports was limited because of subdued external demand.

BUSINESS SURVEYS: PMI AND ROSSTAT'S BUSINESS CONFIDENCE INDICES (SA) *Chart 11*

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

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

Sources: Bank of Russia's monitoring of businesses, Bank of Russia calculations.

Electricity, gas, steam and water. The output of electric power materially decreased in May, both in annual and monthly terms (SA), staying at the levels close to its 2019 lows, which was associated with a considerable reduction in power consumption (see the section 'Electricity consumption'). Water supply slightly increased (SA) month-over-month, but contracted year-over-year. Thus, the output of electricity, gas, steam and water (hereinafter, EGSW) generally decreased both month-over-month (SA) and year-over-year. The contribution of this sector to the annual reduction in industrial output equalled 0.5 percentage points.

Business surveys. As a range of Russian regions were easing their self-isolation restrictions, Russia's composite PMI rose to 35.0 (vs 13.9 in April; Chart 11). However, the index still remains significantly below 50 points, evidencing that business sentiment continued to deteriorate in both the service sector (35.9 in May vs 12.2 in April) and manufacturing (36.2 in May vs 31.3 in April). The closure of enterprises for the lockdown period dragged down expectations regarding future output in manufacturing to record lows. Nonetheless, companies' estimates of their output and demand for their products slightly improved compared to the previous month.

According to the monitoring of businesses carried out by the Bank of Russia, the Business Climate Index⁵ rose in May compared to April, while still staying negative (Chart 12). The estimates of the current situation and expectations improved most significantly among trade and transport companies. This was driven by the easing of the restrictions in a range of Russian regions.

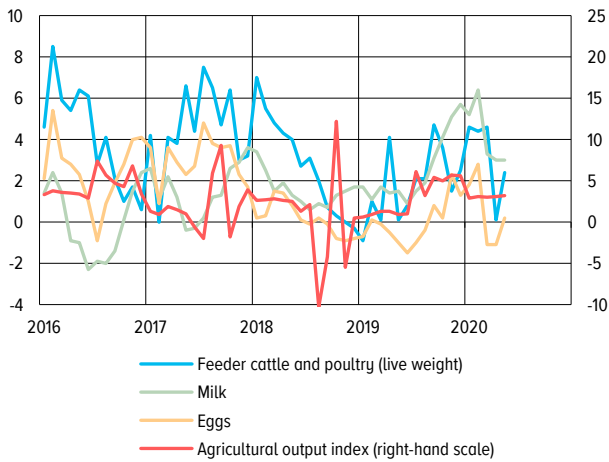
Rosstat's Business Confidence Indices (alternative indicators of business activity) also demonstrated a decline in May, and most notably in manufacturing. Companies reported that subdued domestic demand for their products, economic uncertainties, and high taxes were the major factors limiting output growth.

⁵ The Bank of Russia's Business Climate Index shows actual and expected output and demand trends based on respondent companies' estimates.

AGRICULTURE

Chart 13

% change on the same period last year

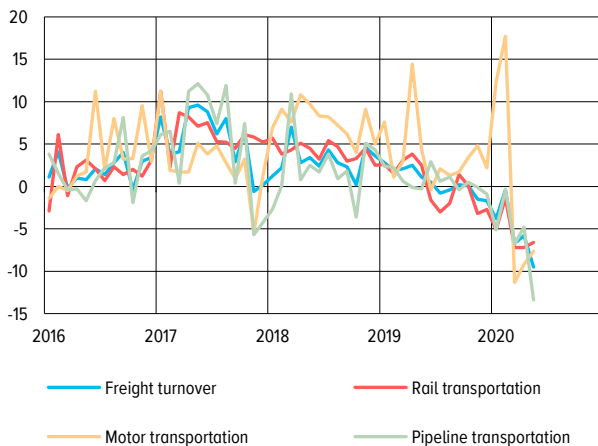


Source: Rosstat.

FREIGHT TURNOVER*

Chart 14

% change on the same period last year

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

Agriculture. In May, the annual growth of agricultural output reached 3.2% (vs 3.1% in April; Chart 13). Livestock breeding, specifically the output of meat and milk, remained the major contributor to this increase. The output of greenhouse vegetables continues to demonstrate high growth rates.

Amid the favourable weather in the majority of Russian regions, the pace of spring crop sowing in 2020 exceeded its multi-year averages. Although the state of winter crops in the southern regions of Russia has deteriorated, harvests are expected to increase owing to the record large winter crop areas and good water availability for spring crops in the central part of the country and in the Volga Region. Furthermore, Russia's Ministry of Agriculture raised its 2020 forecast of the gross grain harvest to 122.5 million tons, which exceeds last year's performance by 1.1%. Russian experts' expectations are even higher (123–129 million tons). They predict the second largest harvest after the 2017 record.

Transport. The annual decline in rail freight turnover slightly slowed down in May (-6.6% in May vs -7.2% in April; Chart 14) as a result of the easing of the restrictions in Russia or their complete cancellation by a range of regions. Rail transportation of grains and construction materials increased. Contrastingly, rail transportation of coal, ferrous metals, oil and petroleum products continued to shrink, evidencing that external demand remained subdued. As the self-isolation regime and the restrictions limiting people's travels partially remain in place, rail passenger transportation continued the downward trend in May (-67.6% in May vs -69.7% in April).⁶

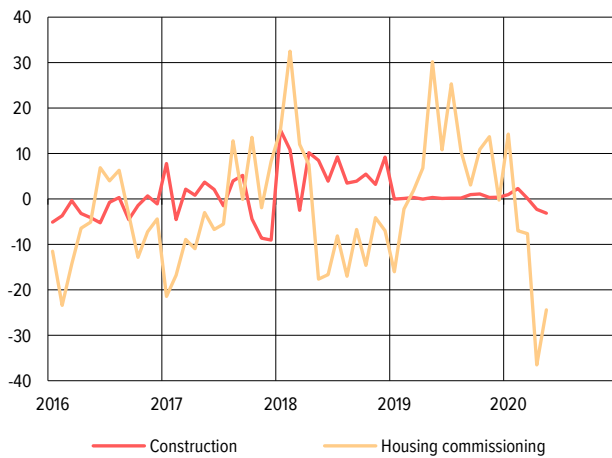
Overall, the decline in freight turnover sped up. Freight turnover contracted across all types of transport, except sea transport. Pipeline transportation was the major contributor to this negative trend, which was caused by a considerable reduction in oil production in Russia (see the section 'Mining').

⁶ According to JSC Russian Railways.

CONSTRUCTION

Chart 15

% change on the same month last year

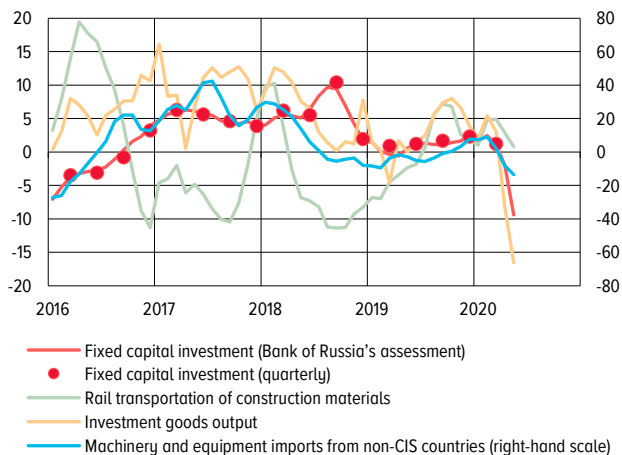


Source: Rosstat.

INVESTMENT ACTIVITY INDICATORS

Chart 16

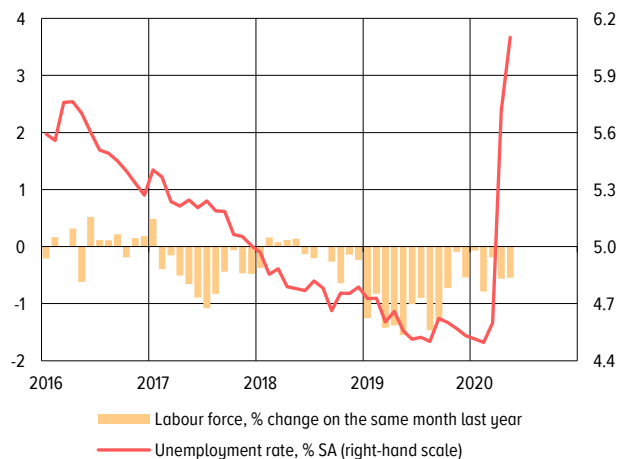
% 3MMA



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

UNEMPLOYMENT RATE AND LABOUR FORCE

Chart 17



Sources: Rosstat, Bank of Russia calculations.

Construction. Despite the progressive easing of the restrictions, the annual decline in construction works accelerated in May (-3.1% in May vs -2.3% in April; Chart 15). The decrease in housing commissioning continued, while more slowly than in April. Housing construction rebounded to its May 2018 level.

Investment activity

According to the Bank of Russia's assessment, fixed capital investment continued to decline in May, month-over-month (SA). Although indirect indicators of investment demand partially recovered, April's slump in investment activity entailed a shrinkage of investment in May since this indicator is characterised by a high inertia. Imports of engineering products expanded in May, while still staying notably below the readings recorded in March 2020. The output of investment goods also partially rebounded. As a range of Russian regions were easing their self-isolation restrictions and resuming construction works, rail transportation of construction materials increased (see the section 'Transport').

Indirect indicators of investment activity behaved divergently in annualised terms (Chart 16). Rail transportation of construction materials resumed the upward trend, while the output and imports of investment goods continued to contract. As assessed by the Bank of Russia, the annual decline in fixed capital investment generally sped up in May.

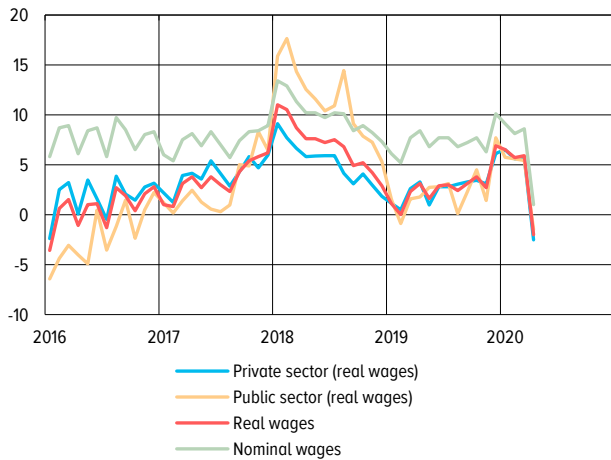
Labour market

Employment. As a range of enterprises suspended their operation within the anti-coronavirus measures, employers' demand for labour trended down in spring. Unemployment rose to 6.1% (SA) in May 2020 (vs 5.7% in April; Chart 17). The number of unemployed increased (SA) by 0.3 million individuals over the month. The number of requests to employment agencies rose even more, namely by 0.9 million people. This was partially caused by the increase in the maximum unemployment compensation to one minimum monthly wage (12,100 rubles) and the launch of the simplified system for verifying the information of applicants requesting unemployment compensations.

WAGES

Chart 18

% change on the same period last year

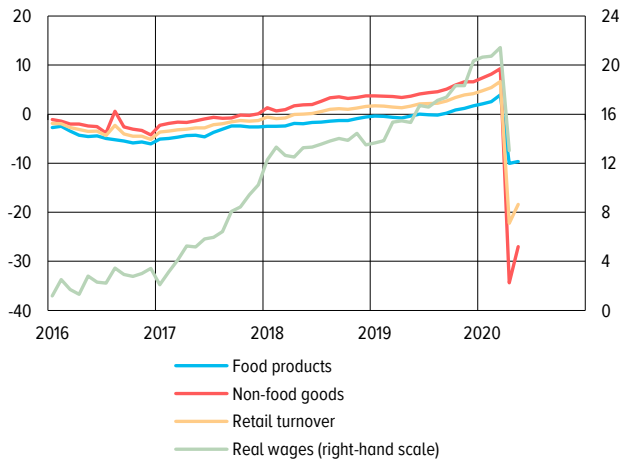


Sources: Rosstat, Bank of Russia calculations.

RETAIL TURNOVER AND REAL WAGES

Chart 19

% growth on December 2015, SA

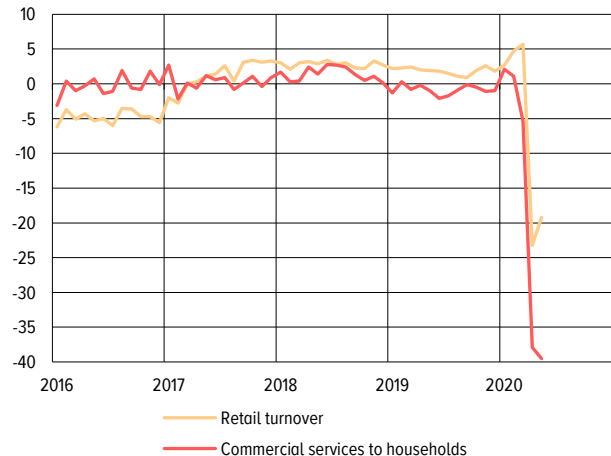


Sources: Rosstat, Bank of Russia calculations.

CONSUMER DEMAND INDICATORS

Chart 20

% change on the same month last year



Sources: Rosstat, Bank of Russia calculations.

Wages. Against the background of the anti-coronavirus restrictions affecting economic activity in Russia, the annual growth of nominal wages rapidly decelerated to 1.0% in April (vs 8.6% in March; Chart 18). Labour remuneration plummeted in all industries of the service sector most affected by the pandemic (hotels and restaurants, culture and sports, air carriage, and others). The decline in real wages reached 2.0%.

Consumer activity

Retail trade and commercial services to households. As the non-work period terminated in Russia and a range of regions partially cancelled their restrictions, retail turnover expanded by 5.0% against the previous month (SA) (Chart 19), predominantly owing to recovering non-food sales (+11.2%). Food sales remained unchanged compared to April. The annual decline in retail turnover slowed down to 19.2% (vs -23.2% in April; Chart 20).

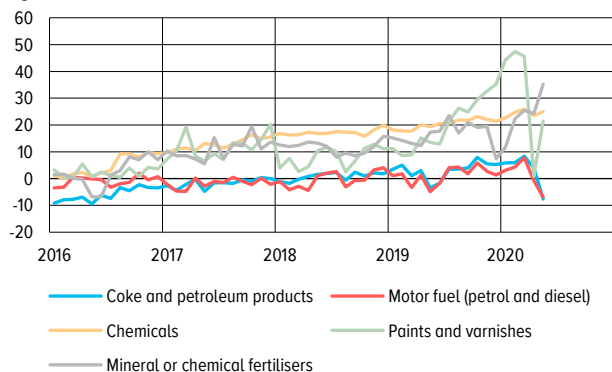
As compared to retail turnover, the amount of commercial services decreased more considerably in May, continuing April's negative trend (-39.5% in May vs -37.9% in April). According to up-to-date indicators, the decrease in consumer activity slowed down materially in June, in annualised terms. This was driven by the gradual opening of stores, coffee houses, and service companies.

Consumer sentiment. In June, consumer sentiment started to improve. According to InFOM's fifth telephone survey carried out on 1–7 June, the percentage of respondents whose financial standing deteriorated over the past two weeks significantly dropped (to 29%) for the first time since April 2020. Concurrently, the portion of respondents reporting that their financial standing remained unchanged increased (to 65%). On the one hand, these results evidence that the situation in the Russian economy and respondents' expectations have improved. On the other hand, these data suggest that it will presumably take a long time for households' incomes to resume their growth.

Annex

PETROLEUM PRODUCTS, CHEMICAL SUBSTANCES AND PRODUCTS Chart 1

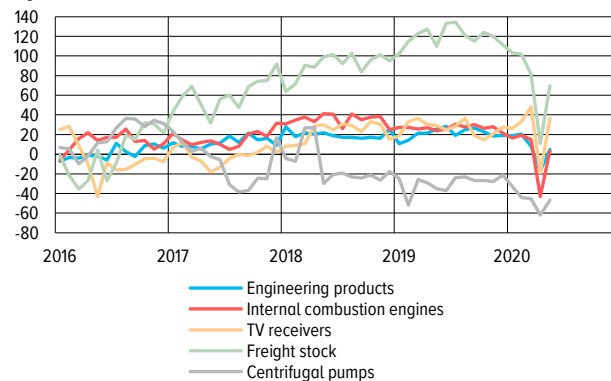
% growth on December 2015, SA



Sources: Rosstat, Bank of Russia calculations.

ENGINEERING PRODUCTS Chart 4

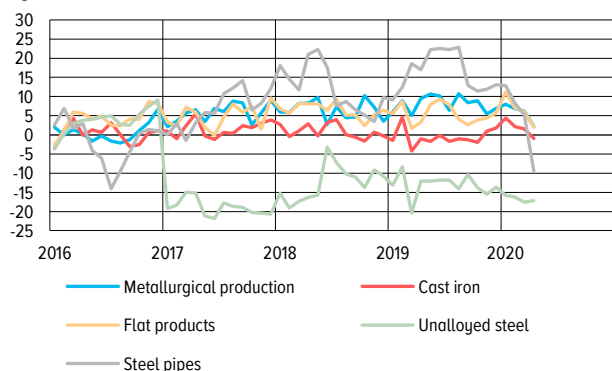
% growth on December 2015, SA



Sources: Rosstat, Bank of Russia calculations.

METALLURGICAL PRODUCTION Chart 2

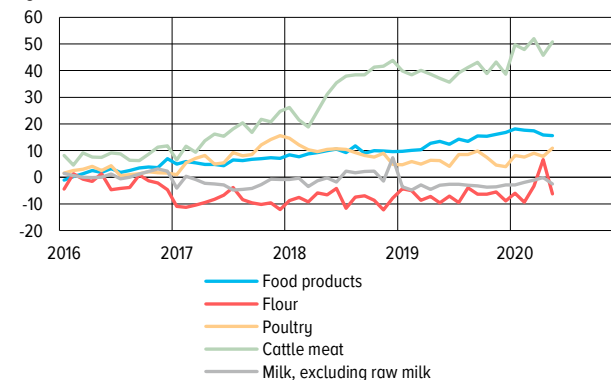
% growth on December 2015, SA



Sources: Rosstat, Bank of Russia calculations.

FOOD PRODUCTS Chart 5

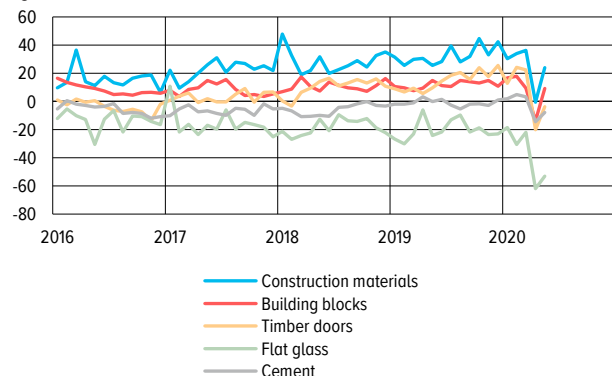
% growth on December 2015, SA



Sources: Rosstat, Bank of Russia calculations.

CONSTRUCTION MATERIALS Chart 3

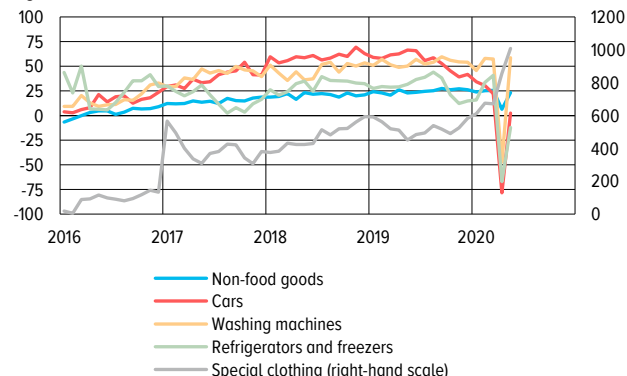
% growth on December 2015, SA



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 – 19.06.2020.

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.

This commentary was prepared by the Monetary Policy Department.

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