



Bank of Russia



# ECONOMY

No. 7 (55) • July 2020

Information and analytical commentary

28 August 2020

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

Russia's economy continued to rebound in July 2020. Judging by the leading output indicator, the annual decrease in the majority of key industries slowed down against June. The easing of the restrictions affecting the operation of the service sector and pent-up household demand supported recovering consumer activity. Investment demand continued to revive. The reduction in employment went down, with wage growth remaining positive. However, despite the recovery, subdued aggregate demand will hinder the rise in consumer prices. According to the Bank of Russia's forecast, GDP will shrink by 4.5–5.5% in 2020.

### CORE ECONOMIC INDICATORS

(growth, % YoY, unless indicated otherwise)

Table 1

	2019	2019 Q4	2020 Q1	2020 Q2	May 2020	June 2020	July 2020
<b>Aggregate output and leading indicators</b>							
GDP	1.3	2.1	1.6	-8.5	–	–	–
Key Industry Index	2.0	2.7	1.9	-9.7	-10.6	-8.4 <sup>12</sup>	–
Electricity consumption <sup>3</sup>	1.2	1.1	-0.6	-3.4	-5.4	-5.7	-3.5
<b>Production activity</b>							
Industrial output	2.3	1.8	1.5	-8.5	-9.6	-9.4	-8.0
Agricultural output	4.0	5.3	3.0	3.1	3.2	3.0	4.0
Construction	0.6	0.9	1.1	-1.7	-3.1	-0.1	-0.2
Freight turnover	0.7	-0.7	-3.9	-8.3	-9.4	-9.6	-8.4
Wholesale turnover	1.6	8.4	6.2	-9.2	-10.8	-3.8	-0.6
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	-7.6	–	–	–
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	6.1/6.1	6.2/6.3	6.3/6.4
Nominal wages	9.5	8.2	8.8	3.0	4.0	3.8	...
Real wages	4.8	4.6	6.2	-0.1	1.0	0.6	...
<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	-19.2	-7.7	-2.6
Commercial services to households	-0.9	-1.4	-1.9	-37.2	-38.9	-31.4	-25.5

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

<sup>2</sup> Bank of Russia's assessment in June: -8.6%.

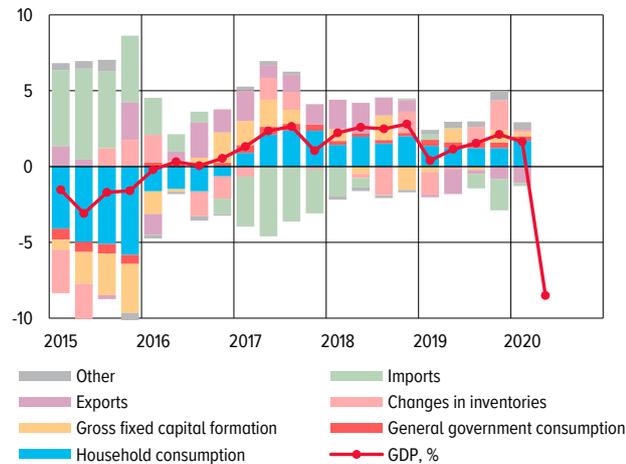
<sup>3</sup> Adjusted for calendar and temperature effects.

Sources: Rosstat, Bank of Russia calculations.

## GDP BY EXPENDITURE

Chart 1

Contribution to annual growth, pp



Sources: Rosstat, Bank of Russia calculations.

## Aggregate output and leading indicators

**GDP by expenditure.** According to Rosstat's preliminary assessment, GDP declined by 8.5% in 2020 Q2 (Chart 1). This is slightly better than the Bank of Russia's estimate given in its [Monetary Policy Report No. 3/2020](#) (a 9–10% decline). The deviation from the forecast was most probably associated with a less considerable shrinkage of exports than it had been expected. In addition, the fiscal measures implemented in Q2 could have had a more positive influence on domestic demand than it had been presumed before.

As assessed by the Bank of Russia, the most significant drag on GDP in Q2 was the decrease in household consumption due to the restricted operation of the retail and service sectors and the shrinkage of real disposable income (for details, refer to the section 'Consumer activity'). Higher uncertainty and the shortage of imported components caused a contraction in companies' investment activity, which entailed a decline in fixed capital investment in Q2 (for details, refer to the section 'Investment activity'). Amid temporary disruptions in production and logistics chains, companies were satisfying demand for their products by reducing their inventories. Overall, gross capital formation and imports shrank materially in Q2, as assessed by the Bank of Russia. Another negative contributor to output was the decline in exports resulting from the external demand downturn and oil production cuts under the OPEC+ deal.

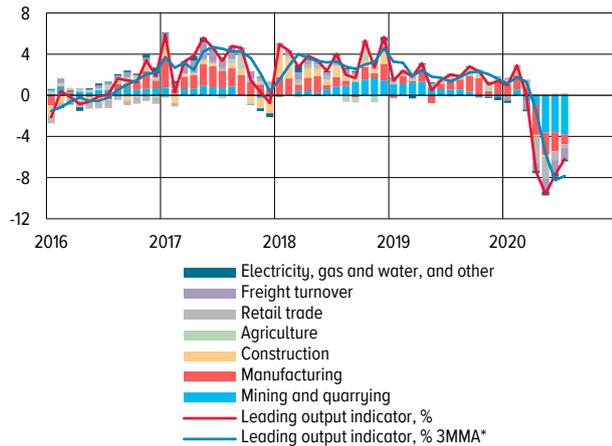
**GDP forecast.** According to the Bank of Russia's estimate, the easing of the restrictions in Q3 both in Russia and abroad will pave the way for economic revival, which will be largely driven by recovering domestic demand. According to the Bank of Russia's forecast, GDP will shrink by 4.5–5.5% in 2020.

Judging by the **leading output indicator**,<sup>1</sup> the annual decrease in the majority of key industries slowed down in July (-6.2% in July vs -7.7% in June; Chart 2). July recorded a continuing deceleration of the annual decrease in output

## LEADING OUTPUT INDICATOR

Chart 2

Contribution to annual growth, pp



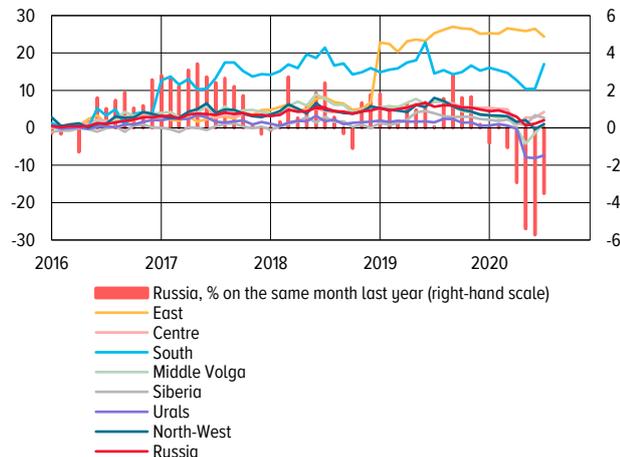
\* Hereinafter, 3-month moving average growth, % YoY.

Sources: Rosstat, Bank of Russia calculations.

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

Chart 3

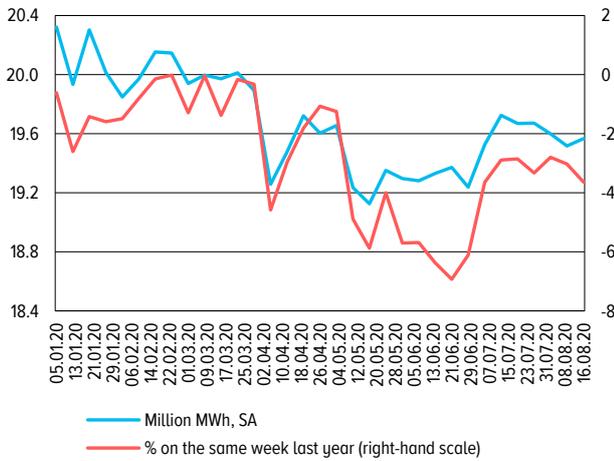
Million MWh, % on December 2015, SA



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

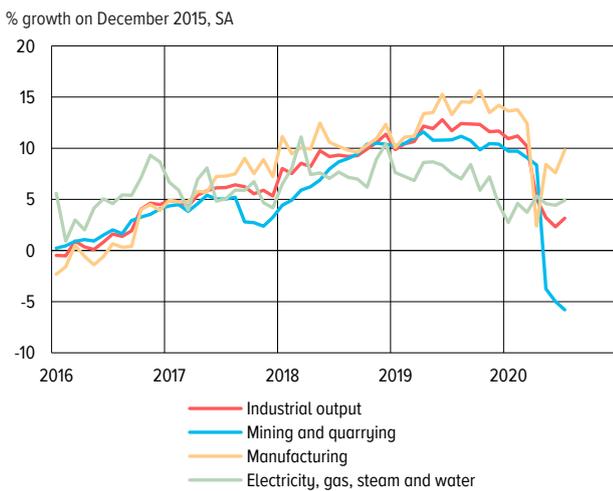
<sup>1</sup> Bank of Russia's assessment. This indicator shows annual dynamics of production activity across key industries.

**ELECTRICITY CONSUMPTION, ADJUSTED FOR CALENDAR AND TEMPERATURE EFFECTS (OVER A WEEK)** Chart 4



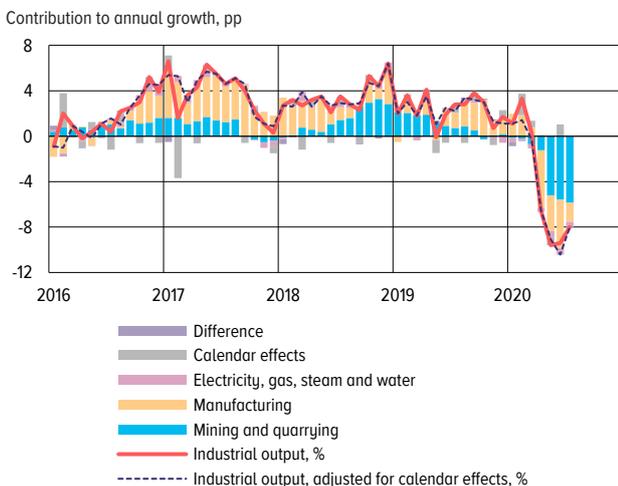
Sources: JSC System Operator of the United Power System, Bank of Russia calculations.

**INDUSTRIAL OUTPUT** Chart 5



Sources: Rosstat, Bank of Russia calculations.

**INDUSTRIAL OUTPUT** Chart 6



Sources: Rosstat, Bank of Russia calculations.

in the retail industry, evidencing a revival of consumer demand, and in manufacturing owing to the resumption of companies' operation (for details, refer to the sections 'Consumer activity' and 'Production activity'). Freight turnover demonstrated an upward trend as a result of the recovery of railway transportation. As before, the major drag on output dynamics was mining and quarrying (for details, refer to the section 'Mining and quarrying').

**Electricity consumption.** According to the Bank of Russia's assessment, electricity consumption trended upwards, as before, which is a sign that economic activity was progressively rebounding (Charts 3 and 4). Its seasonally adjusted (hereinafter, SA) growth rate reached 0.9%, compared to the previous month. Electricity consumption was expanding in the majority of Russian regions, excluding power systems in Siberia and the East. The South and the Centre of Russia demonstrated the most noticeable rise. In annualised terms, the decrease in electricity consumption slowed down to 3.5% (vs -5.7% in June).

In the first half of August, the growth of power consumption discontinued in the majority of Russian regions. According the Bank of Russia's estimate, the annual decline in electricity consumption may slow down to 3.3% in August.<sup>2</sup>

## Production activity

**Industrial output.** July recorded an increase in industrial output against the previous month (SA), while it still remained below its 2019 – early 2020 readings (Chart 5). Manufacturing sectors continued recovery growth. The mining and quarrying industry maintained the downward trend.

The annual decline in industrial output slowed down to 8.0% in July (vs -9.4% in June). Adjusted for calendar effects, the assessment of this indicator remained unchanged (-10.4% in June). The reduction was caused by all components of output, mostly mining and quarrying (Chart 6).

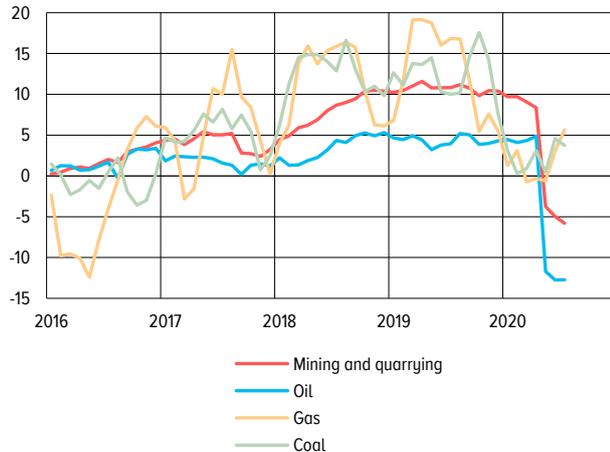
**Mining and quarrying.** Output in mining and quarrying contracted by 0.9% in July (SA) (vs

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

## MINING AND QUARRYING

Chart 7

% growth on December 2015, SA

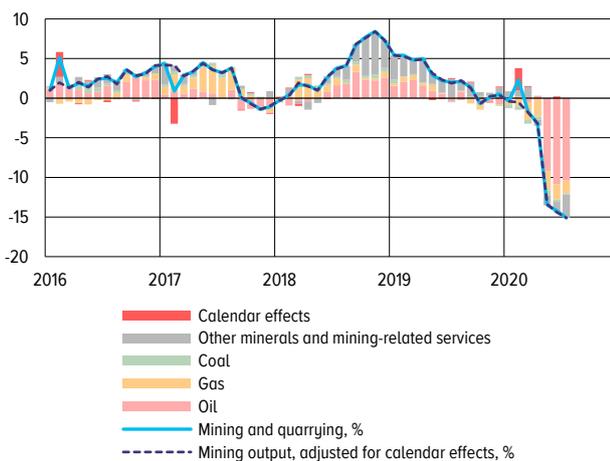


Sources: Rosstat, Bank of Russia calculations.

## MINING AND QUARRYING

Chart 8

Contribution to annual growth, pp

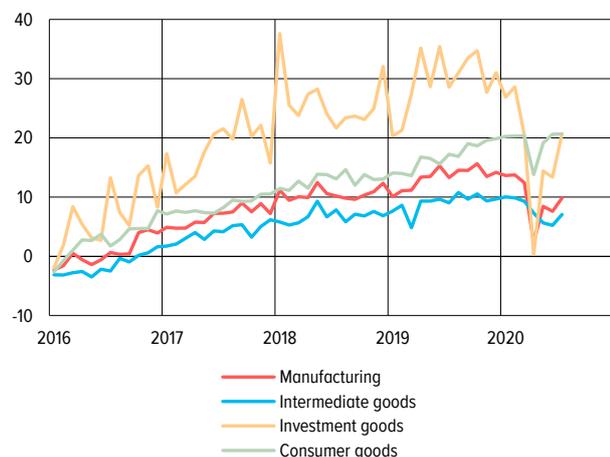


Sources: Rosstat, Bank of Russia calculations.

## MANUFACTURING

Chart 9

% growth on December 2015, SA



Sources: Rosstat, Bank of Russia calculations.

-1.3% in June; Chart 7). Contrastingly, natural gas production expanded. Oil production stabilised at the level agreed upon under the OPEC+ deal. The output of other minerals and mining-related services became a major contributor to the reduction in overall output.

Year-on-year output in mining and quarrying, adjusted for calendar effects, continued to decrease even faster in July, specifically by 15.1% (vs -14.4% in June; Chart 8).

**Manufacturing.** Output in manufacturing demonstrated recovery growth (SA) in July, primarily driven by the output of investment and intermediate goods. The output of consumer goods remained unchanged compared to June (Chart 9).

Year-on-year output in manufacturing, adjusted for calendar effects, contracted by 3.3% (vs -8.3% in June). As assessed by the Bank of Russia, investment goods remained the major contributor to the annual decline in output due to April's slump in their production (-1.9 pp; Chart 10).

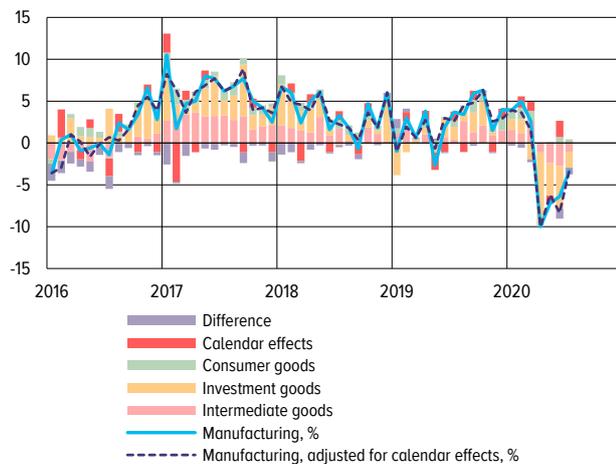
**Intermediate goods.** The output of intermediate goods expanded for the first time since January 2020. This rise was mostly driven by the outputs of chemicals and of rubber and plastics, supported by the weakening of the ruble. The output of fertilisers increased significantly. The production of non-ferrous metals expanded amid rising global prices. The output of petroleum products increased in July, while still staying largely beneath its level recorded in January – April 2020 (Annex, Charts 1 and 2).

**Investment goods.** After June's decline, the output of investment goods resumed growth, returning to its March 2020 readings. An upward trend was demonstrated by all components of output. The output of motor vehicles, as well as machinery and equipment expanded significantly, which was associated with a partial rebound of demand and a higher utilisation of production capacities. The majority of Russian regions resumed construction. This spurred a rise in the output of construction materials which returned to its May 2019 level (for details, refer to the item 'Construction'; Annex, Charts 3 and 4).

## MANUFACTURING

Chart 10

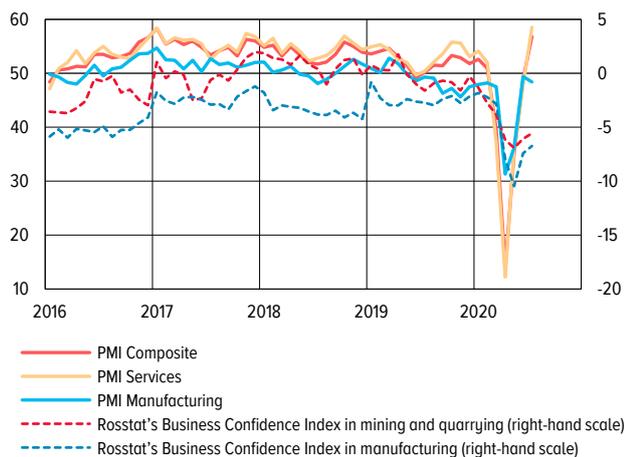
Contribution to annual growth, pp



Sources: Rosstat, Bank of Russia calculations.

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

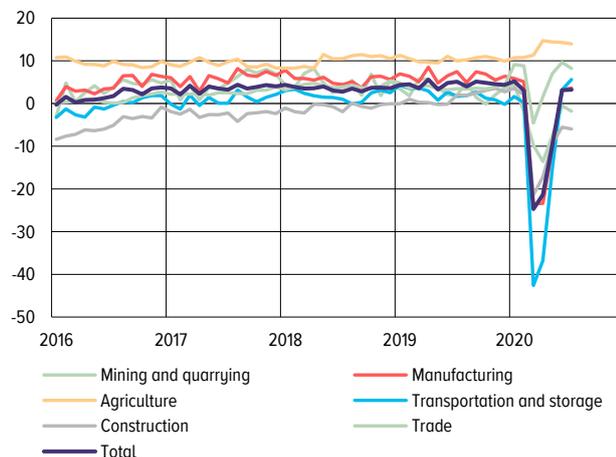
Chart 11



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

BANK OF RUSSIA'S BUSINESS CLIMATE INDEX  
(SA)

Chart 12



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

**Consumer goods.** In July, the growth of consumer goods output stalled (SA). Food output remained close to the level recorded in the previous month (SA). As to non-food goods, the output of clothing and cars continued to expand following the gradual revival of consumer demand. The increase in output was hindered due to the declining production of medicines (Annex, Charts 5 and 6).

**Business surveys.** Russia's composite PMI recovered to 56.8 in July (vs 48.9 in June; Chart 11). PMI in the service sector demonstrated an upward trend, significantly exceeding 50 points (58.5 in July vs 47.8 in June). Conversely, PMI in manufacturing went down (48.4 in July vs 49.4 in June). Economic activity in the service sector increased owing to the cancellation of the restrictions in the majority of Russian regions and rebounding domestic demand.

Rosstat's Business Confidence Indices (alternative indicators of economic activity) demonstrated a rise for the second consecutive month, while still remaining negative in July.

According to the monitoring of companies carried out by the Bank of Russia, the Business Climate Index<sup>3</sup> rose again in July (Chart 12). The estimates of the current situation and expectations improved most significantly among agroindustrial, transport and trade enterprises. Contrastingly, business sentiment slightly deteriorated in mining and construction.

**Agriculture.** The annual growth of agricultural output sped up to 4.0% in July (vs +3.0% in June; Chart 13). This was driven by the expansion of both the output of crop products amid a good harvest of a number of crops and the output of meat, milk and eggs.

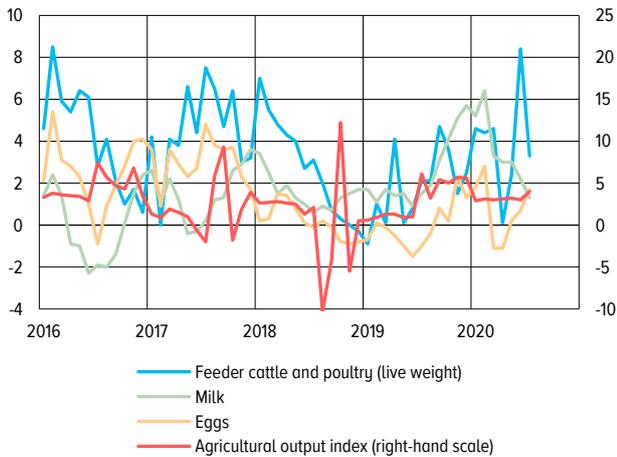
According to recent data from Russia's Ministry of Agriculture, the overall grain harvest across Russia totalled 85 million tons as of 19 August, which is 18% more YoY. The Ministry of Agriculture maintains its grain harvest forecast for 2020 at the level of 122.5 million tons, which is 1.1% above last year's reading. Russian experts' expectations are even higher.

<sup>3</sup> 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 month last year

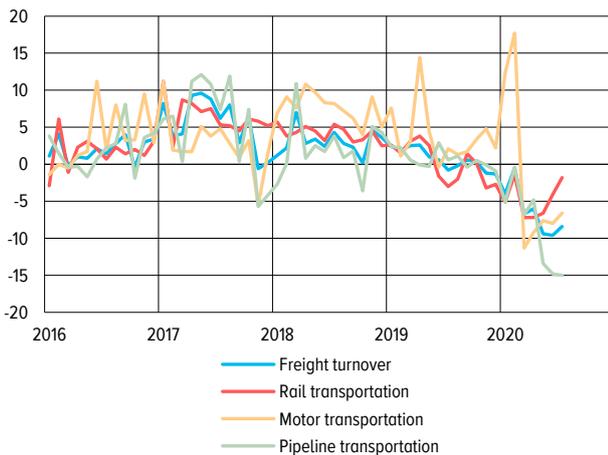


Source: Rosstat.

## FREIGHT TURNOVER

Chart 14

% change on the same month last year

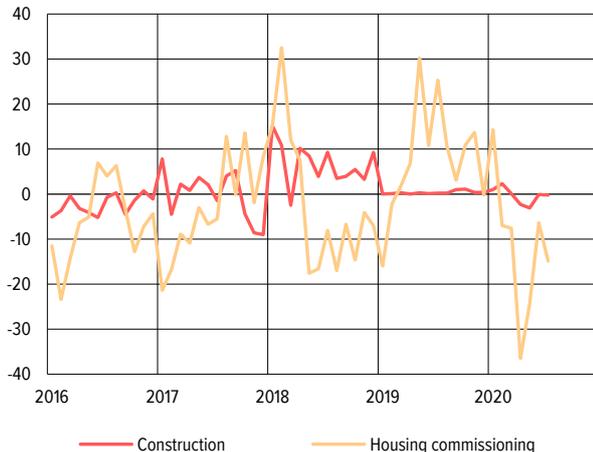


Source: Rosstat.

## CONSTRUCTION

Chart 15

% change on the same month last year



Source: Rosstat.

They predict the second largest harvest after the 2017 record (126–130 million tons).

**Transport.** Railway transportation continued to contract in July. However, its annual decrease slowed down to 1.8% (vs -4.1% in June; Chart 14). Being dragged down by sluggish external demand, the railway transportation of coal, ferrous metals, oil and petroleum products continued to decline in annualised terms. Conversely, the transportation of construction materials, as well as grain and grain products increased again, promoted by the lifting of the restrictions, reviving economic activity, and the rich harvest.

The overall reduction in freight turnover totalled 8.4% in July (vs -9.6% in June). 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').

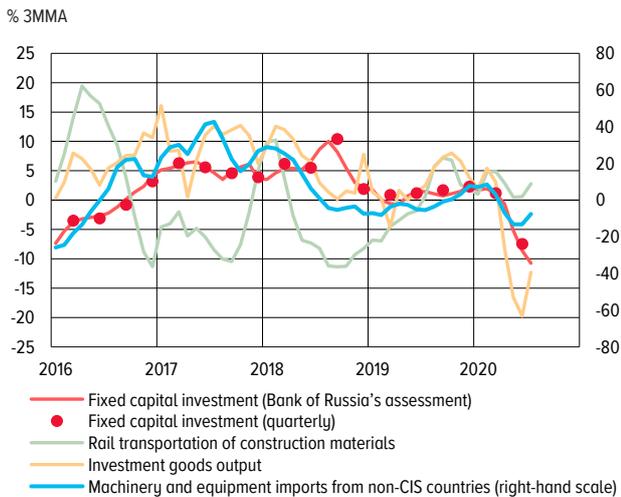
**Construction.** After the downfall in April – May, the volume of construction works generally stabilised in July (Chart 15). However, the decrease in housing commissioning sped up significantly. This could be explained by shifts in housing delivery terms caused by the restrictions effective across Russia from late March through mid-May and still remaining in place in a number of regions.

## Investment activity

In 2020 Q2, fixed capital investment contracted by 7.6% in annualised terms (vs +1.2% in Q1; Chart 16). Fixed capital investment continued to decline in July year-on-year, while, as assessed by the Bank of Russia, investment activity presumably increased month-on-month (SA). That said, indirect indicators of investment demand were changing in a diverse manner. Specifically, imports of engineering products expanded (SA), while staying notably beneath last year's average. Having slightly declined the month before, the output of investment goods demonstrated an upward trend (SA). Contrastingly, railway transportation of construction materials went down (SA).

## INVESTMENT ACTIVITY INDICATORS

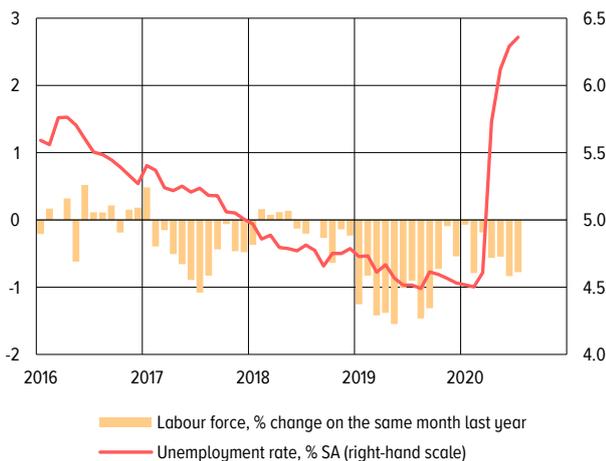
Chart 16



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

## UNEMPLOYMENT AND LABOUR FORCE

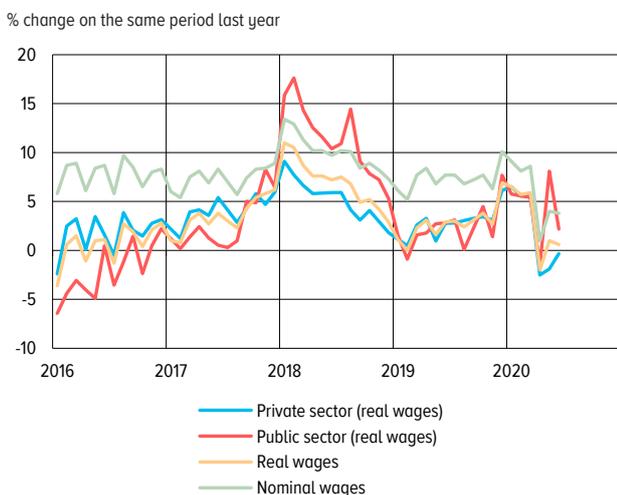
Chart 17



Sources: Rosstat, Bank of Russia calculations.

## WAGES

Chart 18



Sources: Rosstat, Bank of Russia calculations.

## Labour market and incomes

**Employment.** Amid the resumption of production activity, labour demand was gradually recovering in July. Budget-funded measures, namely subsidies and zero interest rate wage loans granted to employers, helped to limit the decline in employment. Unemployment reached 6.4% in July, compared with 6.3% in June and 6.1% in May (Chart 17). The number of unemployed increased (SA) by 79,000 individuals over the month.

The observed rise in unemployment triggered by the downturn in economic activity was associated with the partial adjustment of the labour market through the payroll channel. This is explained by low inflationary pressure in the economy during the current economic decline, in contrast to the similar period in 2014–2015.<sup>4</sup>

**Wages.** June recorded a 3.8% rise in nominal wages (vs +4.0% in May; Chart 18), which was supported by temporary measures, including incentive payments in healthcare and public management. In addition, the easing of the restrictions pushed private sector wages upwards, specifically in trade, construction and transportation. The growth of real wages equalled 0.6% in June (vs +1.0% in May). As of the end of 2020 Q2, real wages decreased by 0.1%. According to the Bank of Russia's estimates, in 2020 real wages will increase by 1.5–2.5% on average.

## Consumer activity

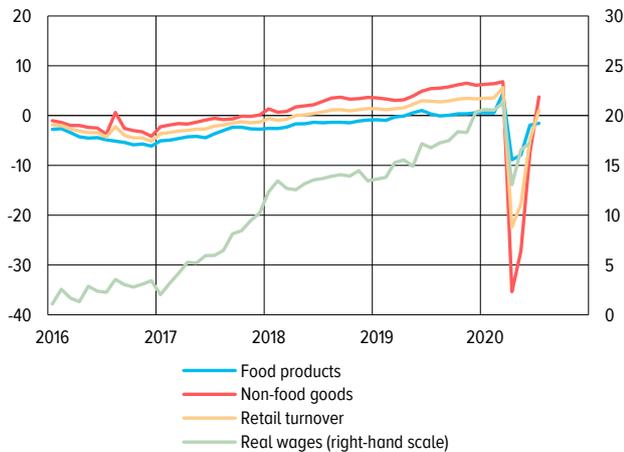
**Retail trade and commercial services to households.** In July 2020, consumer activity continued to rebound, promoted by the progressive cancellation of the social distancing restrictions and pent-up demand. Retail turnover expanded by 6.2% month-on-month (SA; Chart 19), mostly driven by a rise in non-food sales (+12% SA) that reached the averages recorded in 2019 H1. Food sales remained at the previous month's level (+0.4% SA). Concurrently, the easing of the restrictions sped up the

<sup>4</sup> In 2009, the labour market also adjusted both by decreasing the number of employed and through the payroll channel.

## RETAIL TURNOVER AND REAL WAGES

Chart 19

% growth on December 2015, SA

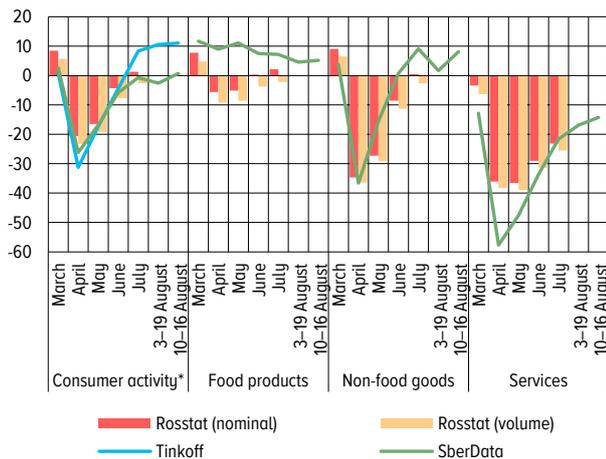


Sources: Rosstat, Bank of Russia calculations.

## CONSUMER DEMAND INDICATORS

Chart 20

% change on the same period last year

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

recovery of the value of commercial services (+15.0% SA vs +5.1% SA in June).

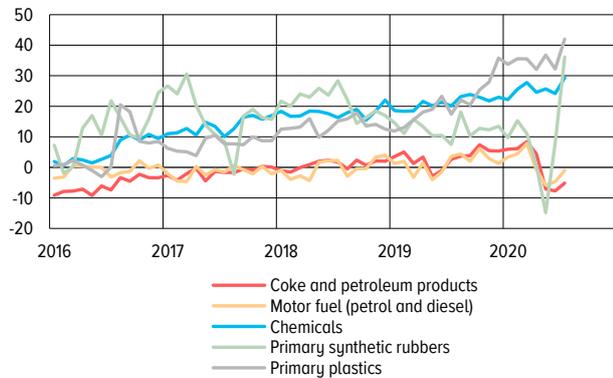
The annual decline in retail sales slowed down to 2.6% (vs -7.7% in June; Chart 20), with their total value exceeding last year's level. The situation in the sector of commercial services noticeably improved (-25.5% vs -31.4% in June). Nonetheless, the remaining restrictions in the service sector and the decrease in household incomes were limiting demand growth.

According to up-to-date figures, the recovery of consumer activity slowed down in the first half of August. Most probably, this was because the positive effect of pent-up demand was exhausted (Chart 20). The growth of non-food sales trended down over the first week of August. Dynamics in the service sector remained generally weak, with the tourism industry showing signs of improvement.

## Annex

PETROLEUM PRODUCTS, CHEMICAL SUBSTANCES AND PRODUCTS *Chart 1*

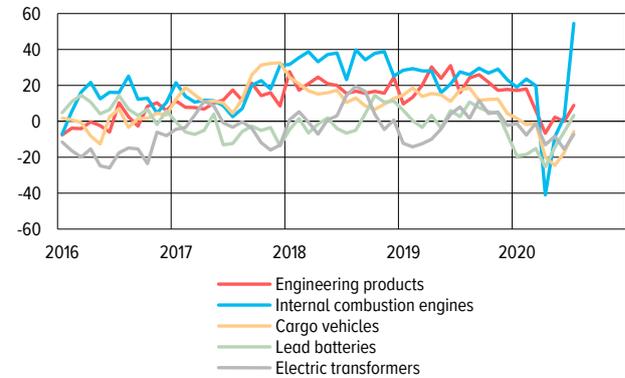
% growth on December 2015, SA



Sources: Rosstat, Bank of Russia calculations.

ENGINEERING PRODUCTS *Chart 4*

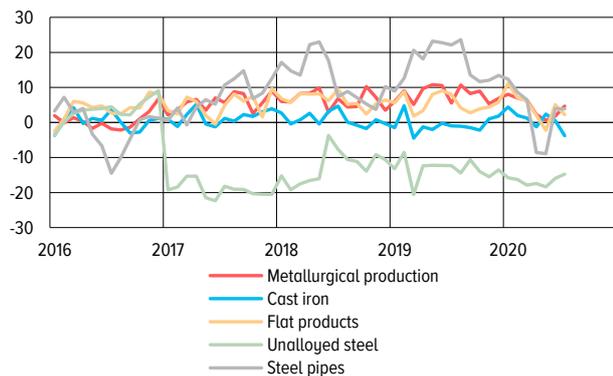
% growth on December 2015, SA



Sources: Rosstat, Bank of Russia calculations.

METALLURGICAL PRODUCTION *Chart 2*

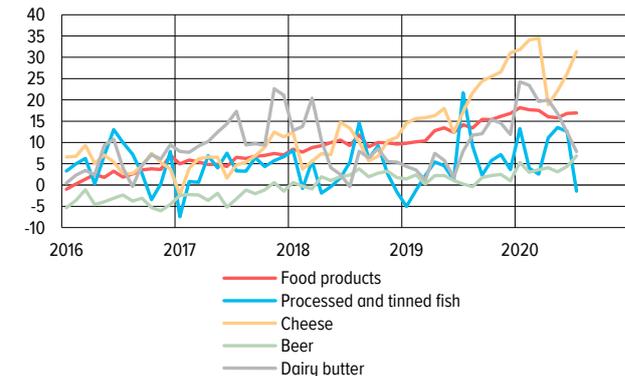
% growth on December 2015, SA



Sources: Rosstat, Bank of Russia calculations.

FOOD PRODUCTS *Chart 5*

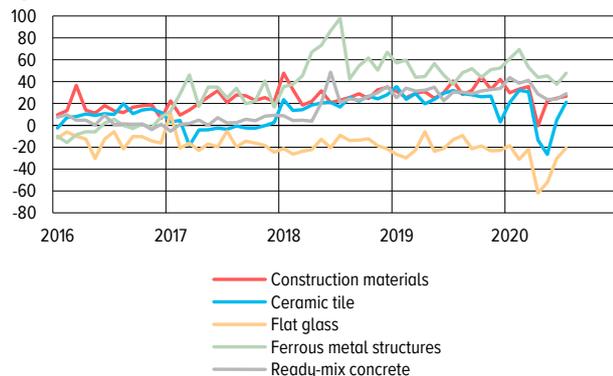
% growth on December 2015, SA



Sources: Rosstat, Bank of Russia calculations.

CONSTRUCTION MATERIALS *Chart 3*

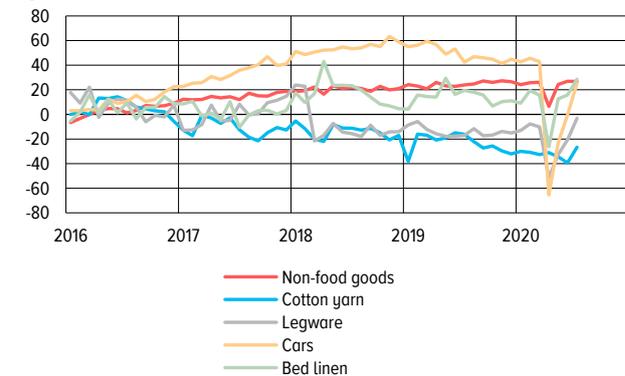
% growth on December 2015, SA



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 – 20.08.2020.

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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12 Neglinnaya Street, 107016 Moscow

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