



Bank of Russia



# ECONOMY

No. 8 (56) • August 2020

Information and analytical commentary

28 September 2020

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

According to 2020 Q2 GDP data, along with current economic activity indicators that point to a lively recovery of demand and production in 2020 Q3, GDP reduction can be expected to be more moderate in 2020 than the assumed 4.5–5.5% range in the Bank of Russia's forecast published after the July key rate meeting of the Bank of Russia Board of Directors. That said, in August and September, Russian business activity was recovering at a more subdued pace compared to June and July. The recovery is continuing mostly on the back of industries focused on domestic consumption as a result of eased restrictive measures, implemented fiscal support measures as well as deferred demand of households. At the same time, the recovery of other sectors of the economy is less noticeable. However, it should be noted that certain manufacturing sectors have already restored their production to the levels recorded in 2019 H2 – early 2020.

### CORE ECONOMIC INDICATORS

(growth, % YoY, unless indicated otherwise)

Table 1

	2019	January– August 2019	January– August 2020	2019 Q4	2020 Q1	2020 Q2	July– August 2020 <sup>1</sup>	June 2020	July 2020	August 2020
<b>Aggregate output and leading indicators</b>										
GDP	1.3	0.9 <sup>2</sup>	-3.6 <sup>2</sup>	2.1	1.6	-8.0	-4.5 <sup>2</sup>	-5.9 <sup>2</sup>	-4.6 <sup>2</sup>	-4.3 <sup>2</sup>
Key industry index	2.0	1.4	-4.3 <sup>3</sup>	2.7	1.9	-9.6	-5.6 <sup>3</sup>	-8.1	-5.9	-5.2 <sup>3</sup>
<b>Production activity</b>										
Industrial output	2.3	2.3	-4.5	1.8	1.5	-8.5	-7.6	-9.4	-8.0	-7.2
Agricultural output	4.0	2.5	4.2	5.3	3.0	3.1	4.2	3.0	4.0	4.4
Construction	0.6	0.1	-0.5	0.9	1.1	-1.7	-0.4	-0.1	-0.2	-0.6
Freight turnover	0.7	1.3	-6.2	-0.7	-3.9	-8.3	-6.8	-9.6	-8.3	-5.2
Wholesale turnover	1.6	-2.1	-1.0	8.4	6.2	-8.4	-1.4	-1.4 <sup>4</sup>	-0.6	-2.1
Inventories <sup>1</sup> (contribution to GDP, pp)	0.5	-0.8 <sup>3,5</sup>	-0.1 <sup>3,5</sup>	2.0	0.2	-0.4 <sup>3</sup>	–	–	–	–
<b>Investment activity</b>										
Fixed capital investment	1.7	0.5 <sup>3</sup>	-5.6 <sup>3</sup>	2.3	1.2	-7.6	-10.4 <sup>3</sup>	-10.2 <sup>3</sup>	-11.5 <sup>3</sup>	-9.3 <sup>3</sup>
Gross fixed capital formation	1.5	1.8 <sup>3,5</sup>	-3.5 <sup>3,5</sup>	2.9	1.8	-7.5 <sup>3</sup>	–	–	–	–
<b>Consumption, saving, and income</b>										
Household real disposable money income	1.0	-0.3 <sup>5</sup>	-3.7 <sup>5</sup>	1.8	1.2	-8.0	–	–	–	–
Household final consumption expenditure	2.5	2.6 <sup>3,5</sup>	-8.2 <sup>3,5</sup>	2.5	3.3	-19.1 <sup>3</sup>	–	–	–	–
Saving ratio <sup>3</sup>	9.7	8.4 <sup>3,5</sup>	15.9 <sup>3,5</sup>	10.9	8.8	23.0	–	–	–	–
Retail turnover	1.9	1.9	-5.1	2.1	4.4	-16.0	-2.3	-7.1	-1.9	-2.7
Commercial services to households	0.5	0.1	-19.8	0.2	-1.9	-36.1	-22.1	-34.5	-23.2	-18.8
<b>Labour market</b>										
Unemployment rate, seasonally adjusted <sup>3</sup> (% of labour force)	4.6	4.6 / 4.6	5.6 / 5.6	4.6 / 4.5	4.6 / 4.5	6.0 / 6.0	6.4 / 6.5	6.2 / 6.3	6.3 / 6.4	6.4 / 6.6
Nominal wages	9.5	7.2 <sup>6</sup>	5.8 <sup>6</sup>	8.2	8.8	3.0	...	3.8	5.7	...
Real wages	4.8	2.1 <sup>6</sup>	2.9 <sup>6</sup>	4.6	6.2	-0.1	...	0.6	2.3	...

Note: the shading of table cells corresponds to the actuality of data: newer data / estimates are lighter.

<sup>1</sup> Bank of Russia calculations.

<sup>2</sup> Estimate of the Ministry of Economic Development.

<sup>3</sup> Bank of Russia's estimate.

<sup>4</sup> Rosstat's revised data.

<sup>5</sup> January–June data.

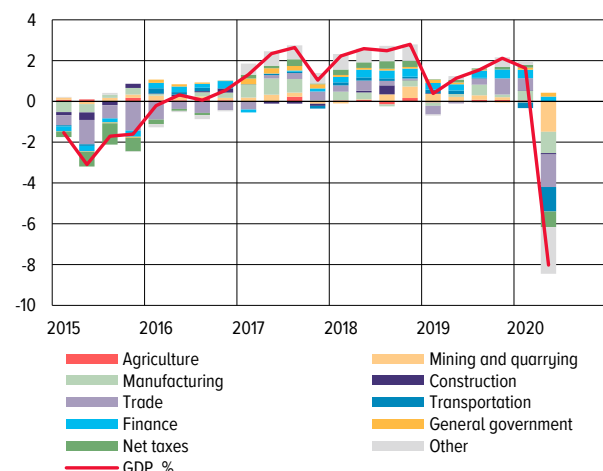
<sup>6</sup> January–July data.

Sources: Rosstat, Ministry of Economic Development, Bank of Russia calculations.

## GDP BY PRODUCTION

Chart 1

Contribution to annual growth, pp



Sources: Rosstat, Bank of Russia calculations.

## Aggregate output and leading indicators

**GDP by production.** According to Rosstat, gross value added of the Russian economy dropped by 8.1% in 2020 Q2 after growing by 1.7% in the previous quarter. This annualised decline was mainly driven by the mining and quarrying sector on the back of a significant weakening of external demand as well as by the retail trade and service sectors affected by large-scale and prolonged anti-epidemic measures (Chart 1). Annualised gross value added of the Russian economy was positively influenced by its increase in financial services (+6.1%) and general government (+2.6%). All levels of the budget system demonstrated a positive fiscal impulse owing to a noticeable acceleration of budget expenditures (including as part of national projects<sup>1</sup>) and a decline in revenues.<sup>2</sup>

**Forecast of GDP and its components.**

According to the Bank of Russia's July forecast, GDP will shrink by 4.5–5.5% in 2020. This estimate can be reviewed in favour of a less pronounced decline based on actual GDP data for 2020 Q2 and up-to-date economic indicators that point to a more lively recovery in economic activity.

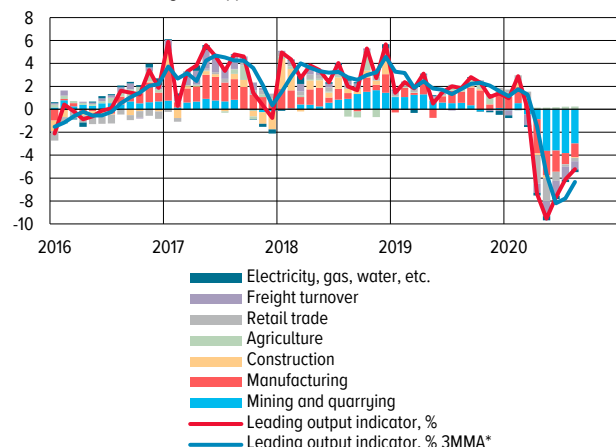
The continuing easing of restrictions, accommodative monetary policy and the measures taken by the Russian Government to support households and businesses paved the way for economic expansion. However, the observed fast recovery that is largely based on satisfaction of deferred demand and social support measures is gradually slowing down.

The **leading output indicator**<sup>3</sup> increased in August but remained in negative territory (-5.2% in August vs -6.1% in July; Chart 2). The slowdown in its annual decline was driven by

## LEADING OUTPUT INDICATOR

Chart 2

Contribution to annual growth, pp



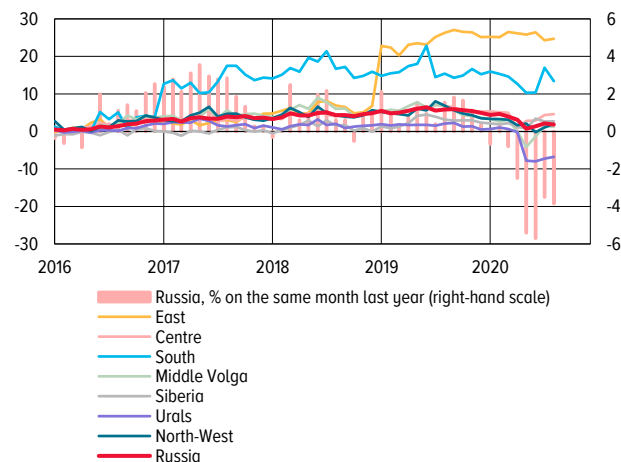
\* Hereinafter, 3-month moving average growth, % YoY.

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.

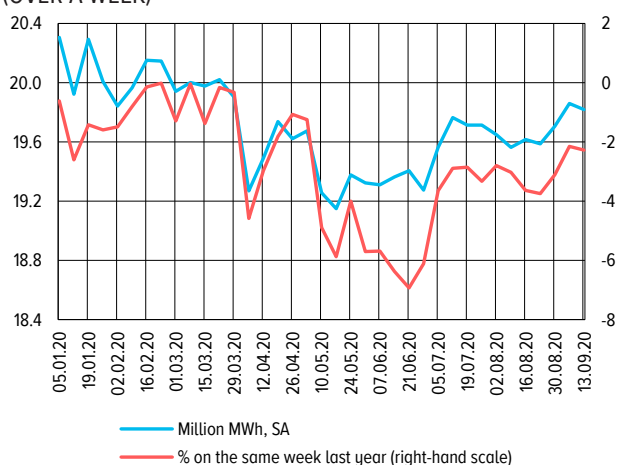
<sup>1</sup> According to the Federal Treasury, total budget expenditures increased in 2020 Q2 by 17.9% in annual terms.

<sup>2</sup> According to the Federal Treasury, total non-oil and gas budget revenues (excluding proceedings from the sale of Sberbank shares) declined in 2020 Q2 by 13.5% in annual terms.

<sup>3</sup> According to the Bank of Russia's assessment. This indicator shows annual changes in production activity across key industries.

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

Chart 4

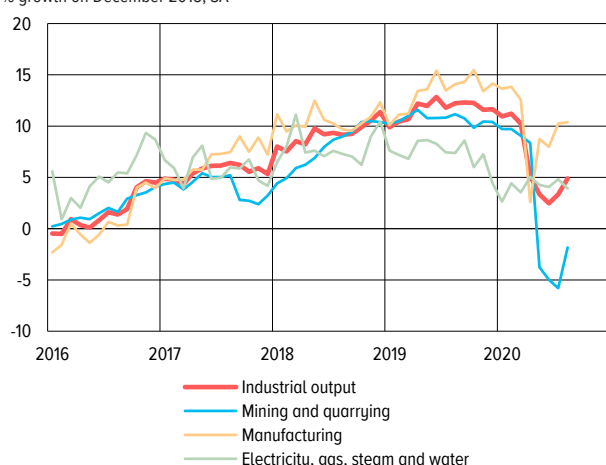


Sources: JSC System Operator of the United Power System, Bank of Russia calculations.

**INDUSTRIAL OUTPUT**

Chart 5

% growth on December 2015, SA

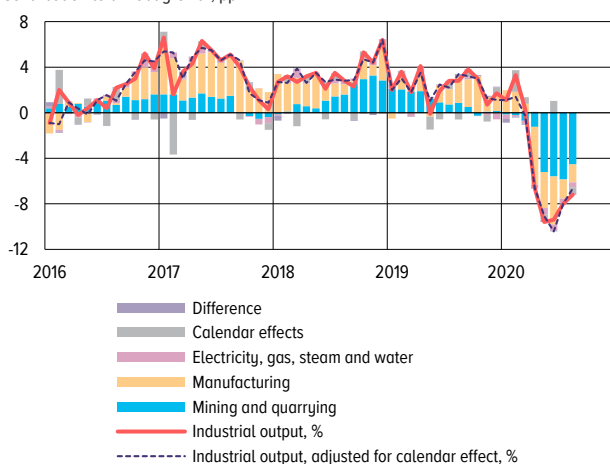


Sources: Rosstat, Bank of Russia calculations.

**INDUSTRIAL OUTPUT**

Chart 6

Contribution to annual growth, pp



Sources: Rosstat, Bank of Russia calculations.

a partial recovery of mining and (in particular, railway) freight turnover amid accelerating housing construction (refer to sections 'Mining and quarrying', 'Transport' and 'Construction' for details). Production was supported by a continuing growth in agriculture. At the same time, as the effect of deferred demand was gradually running out, annual decline in retail turnover accelerated (see the section 'Consumer activity' for details).

**Electricity consumption.** According to the Bank of Russia's estimates, electricity consumption largely remained unchanged in August vs July (Charts 3 and 4). It was contracting in power systems of the South, the Middle Volga and Siberia. Growth was observed in the Centre and the North-West of Russia as well as in the Urals owing to increased oil and gas production. In annualised terms,<sup>4</sup> the decrease in electricity consumption accelerated to 3.9% (vs -3.5% in July).

At the same time, in the second half of August, the lagging behind the level recorded in the same month last year was rapidly decreasing. This trend failed to continue in September as growth in electricity consumption slowed down in the majority of Russian regions. As of the end of the month, the contraction can reach 1.9%.<sup>5</sup>

## Production activity

**Industrial output.** Seasonally adjusted (hereinafter, SA) growth of industrial output continued in August compared to the previous month. The mining and quarrying sector demonstrated a noticeable increase in production. Output in manufacturing remained at the previous month's level. Overall, industrial output failed to exceed its April 2017 level (Chart 5).

The annual decline in industrial output reached 7.2% in August (vs -8.0% in July). Adjusted for calendar effects, industrial output dropped by 6.7% (vs -8.0% in July). The reduction was caused by all components of output, with mining and quarrying being the largest contributor (Chart 6).

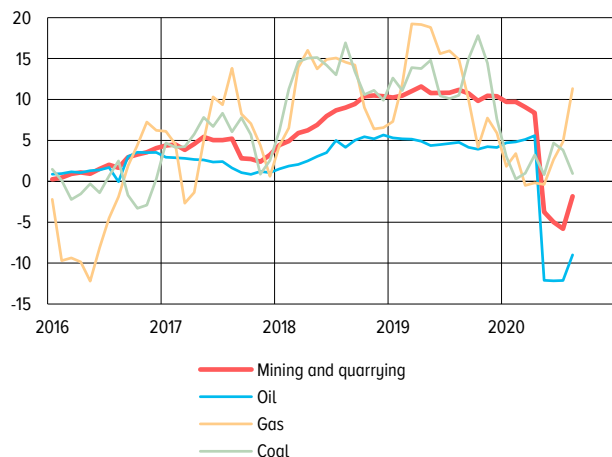
<sup>4</sup> Adjusted for calendar and temperature effects.

<sup>5</sup> Adjusted for calendar and temperature effects.

## MINING AND QUARRYING

Chart 7

% growth on December 2015, SA

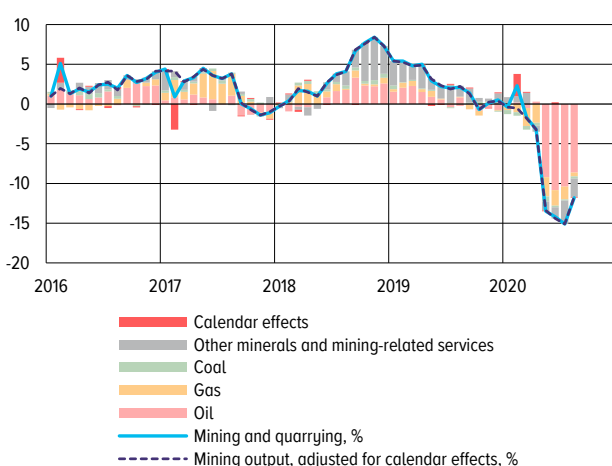


Sources: Rosstat, Bank of Russia calculations.

## MINING AND QUARRYING

Chart 8

Contribution to annual growth, pp

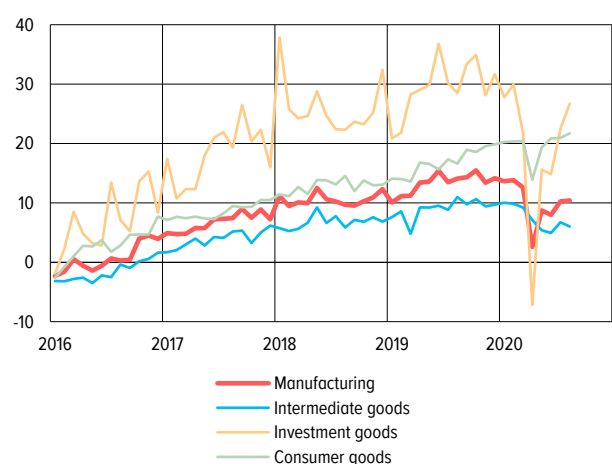


Sources: Rosstat, Bank of Russia calculations.

## MANUFACTURING

Chart 9

% growth on December 2015, SA



Sources: Rosstat, Bank of Russia calculations.

**Mining and quarrying.** Output in mining and quarrying increased by 4.2% in August (SA) MoM (vs -0.9% in July; Chart 7). Gas production growth accelerated in August owing to a decline in LPG supplies from the US to Europe and a temporary increase in demand for natural gas by European consumers. Russian oil production growth was supported by the easing of restrictions under OPEC+ arrangements.<sup>6</sup> At the same time, weak external demand and new Chinese customs requirements for the quality of coal constrained coal production.

The decline in year-on-year output in mining and quarrying, adjusted for calendar effects, slowed down in August to 11.7% (vs -15.1% in July; Chart 8).

**Manufacturing.** Output in manufacturing remained unchanged vs July (SA). Production of intermediate goods declined while that of investment and consumer goods rose (Chart 9). Output in a number of large industries (e.g. construction materials and non-food goods) even recovered to the level of late 2019 – early 2020.

Year-on-year output in manufacturing, adjusted for calendar effects, contracted by 3.1% (vs -3.3% in July). According to the Bank of Russia's estimates, this annual decline was mostly driven by intermediate goods production (-2.3 pp; Chart 10). This was related to its sustained and significant contraction during the period of restrictive measures in spring and weak external demand.

**Intermediate goods.** After increasing in July, the output of intermediate goods adjusted downwards in August, mainly driven by metallurgy. Non-ferrous metallurgy was the main contributor to the reduction amid declining external demand for certain product types. Negative dynamics were also observed in production of pipes and ferrous metals due to tightening trade barriers in Europe and continuing weak domestic demand of the oil and gas industry after the completion of a number of large-scale infrastructure projects. Intermediate goods output was supported by rubber and plastics production, including due to

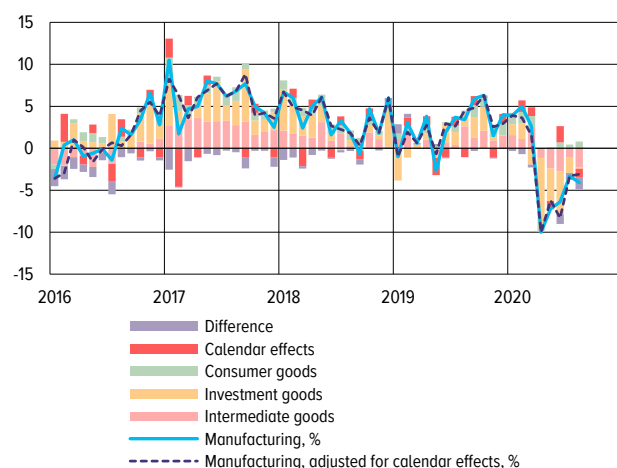
<sup>6</sup> From August to the end of 2020, Russia's quota under the OPEC+ agreement was increased from 8.5 to 9.0 million barrels per day.



## MANUFACTURING

Chart 10

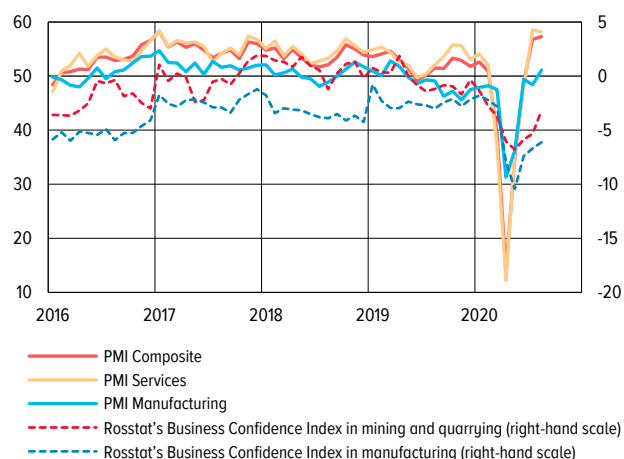
Contribution to annual growth, pp



Sources: Rosstat, Bank of Russia calculations.

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

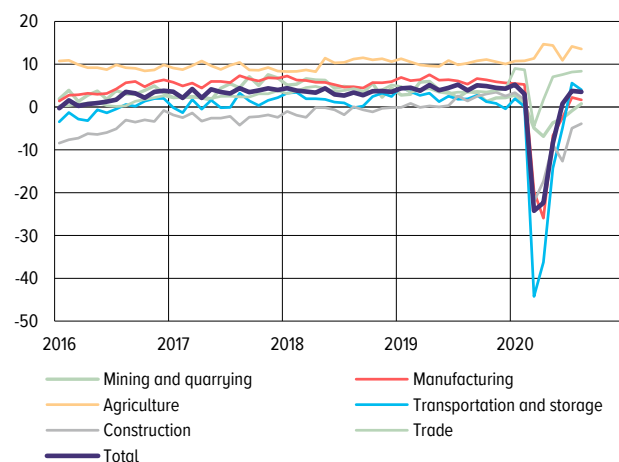
Chart 11



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.

the fact that the weak ruble caused consumers to switch to domestically produced goods. The output of petroleum products slightly increased in August, while staying noticeably below its level recorded in January – April 2020 (Annex, Charts 1 and 2).

**Investment goods.** The output of investment goods continued in August, albeit it failed to exceed the level of early 2020. The production of engineering goods demonstrated mixed dynamics: while the output of railway vehicles, computers and electronic equipment increased, the production of motor vehicles, machinery and equipment declined, mainly due to exhausted deferred demand. The production of construction materials returned to its average 2019 level. Significant growth over the past few months was related to intensified construction work both under national projects and due to higher demand of households for country housing construction and repairs (for details, refer to the item 'Construction'; Annex, Charts 3 and 4).

**Consumer goods.** In August, production returned to the trend observed in 2019 H2 – early 2020. This was facilitated mainly by growth in non-food goods output as a result of deferred demand satisfaction and a switch to domestically produced goods due to the weakening of the ruble. The output of food products stabilised at the 2020 Q1 level. The output of medicines returned to its historic highs, which can be related to the fact that consumers switched to domestic goods due to increased import prices (Annex, Charts 5 and 6).

**Business surveys.** Russia's composite PMI grew to 57.3 in August (vs 56.8 in July). Positive dynamics were observed both in services (58.2 in August vs 58.5 in July) and manufacturing (51.1 in August vs 48.4 in July). This points to a continuing recovery growth in the Russian economy amid a revival of consumer demand and gradually resuming operations of service sector companies.

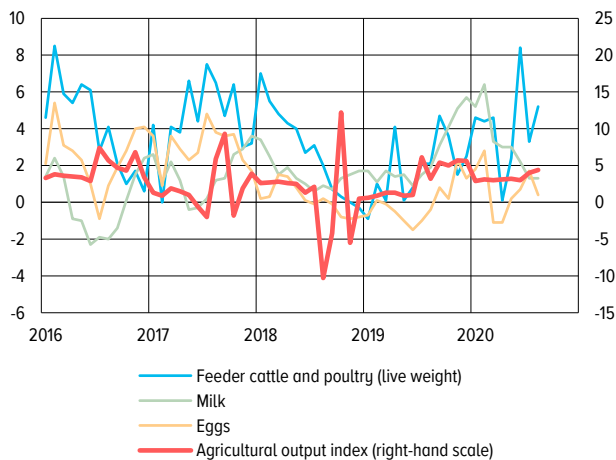
Rosstat's Business Confidence Indices (alternative indicators of economic activity) also continued to recover in August, with mining and quarrying being the main contributor.

According to the monitoring of companies carried out by the Bank of Russia, the Business

## AGRICULTURE

Chart 13

% change on the same month last year



Source: Rosstat.

## FREIGHT TURNOVER

Chart 14

% change on the same month last year

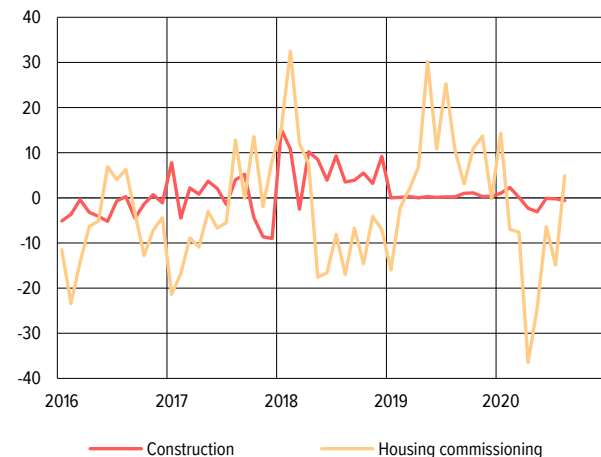


Source: Rosstat.

## CONSTRUCTION

Chart 15

% change on the same month last year



Source: Rosstat.

Climate Index<sup>7</sup> slightly declined in August but remained in positive territory (Chart 12). The estimates of the current situation and expectations improved most markedly among agroindustrial and trade enterprises. Contrastingly, business sentiment continued to deteriorate in construction.

**Agriculture.** The annual growth of agricultural output sped up to 4.4% in August (vs 4.0% in July; Chart 13). Positive dynamics were observed both in crop farming owing to a good harvest of key export crops and in the production of meat, milk and eggs.

According to recent data from Russia's Ministry of Agriculture, Russia's overall grain harvest totalled 116.2 million tons in bunker weight<sup>8</sup> as of 17 September, which is 15% more YoY. The Ministry of Agriculture maintains its grain harvest forecast for 2020 at the level of 122.5 million tons. Russian experts' expectations are even higher. They predict the second largest harvest after the 2017 record (126–130 million tons).

**Transport.** Railway freight turnover grew in August by 1.2% in annual terms for the first time since October 2019 (vs -1.8% in July; Chart 14). This was driven by increased transportation of construction materials as well as grain and grain products. Dragged down by sluggish external demand, transportation of coal, oil and petroleum products continued to decline.

Freight turnover decline slowed down in August to 5.2% in annual terms (vs -8.3% in July). Pipeline transportation continued to be the major drag on the performance of the aggregate indicator due to oil production cuts in Russia (see the section 'Mining and quarrying').

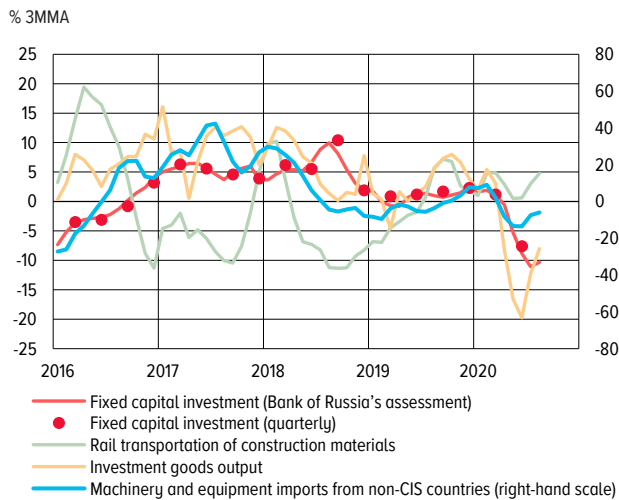
**Construction.** Annual dynamics of construction remained close to zero in August, same as two months before that (Chart 15). However, housing commissioning sped up significantly. This could be explained by shifts in commissioning deadlines caused by previously implemented anti-coronavirus restrictions.

<sup>7</sup> The Bank of Russia's Business Climate Index shows actual and expected output and demand trends based on respondent companies' estimates.

<sup>8</sup> Weight of grain prior to cleaning and processing.

## INVESTMENT ACTIVITY INDICATORS

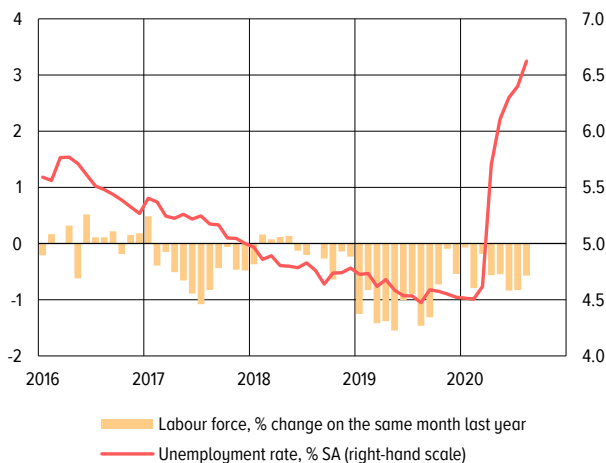
Chart 16



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

## UNEMPLOYMENT AND LABOUR FORCE

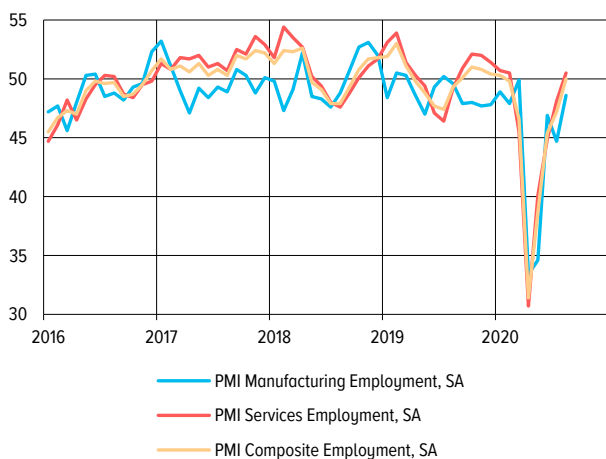
Chart 17



Sources: Rosstat, Bank of Russia calculations.

## PMI IN EMPLOYMENT (SA)

Chart 18



Source: IHS Markit.

## Investment activity

According to the Bank of Russia's estimates, monthly (SA) growth in fixed capital investment accelerated in August. That said, indirect indicators of investment demand were changing in a diverse manner. After a decline in the previous month, railway transportation of construction materials noticeably increased. Growth in investment goods output continued. At the same time, the weakening of the ruble caused engineering imports to decrease and return to its May 2020 level.

In annual terms, investment activity slowed down its decline in August (Chart 16). Measures implemented by the Russian Government and the easing of monetary conditions continue to support fixed capital investments.

## Labour market and incomes

**Employment.** In August 2020, contraction in employment accelerated with unemployment increasing to 6.6% (SA) (vs 6.4% in July; Chart 17). At the same time, the labour market saw signs of recovering demand for the labour force: according to surveys, employers' sentiment did not worsen for the first time since January 2020 (Chart 18). This fact, along with state support measures (subsidies and zero interest rate wage loans), partially contained increasing tensions in the labour market. Overall, in April–August, the decline in the total number of employees was greater than the growth of unemployment (both YoY and MoM, SA). It resulted from, among other things, the fact that some people who had lost job stopped looking for it in a difficult economic situation.

**Wages.** In July 2020, growth in nominal wages accelerated to 5.7% in annual terms (vs +3.8% in June; Chart 19). Firstly, the lifting of restrictions on economic activity brought about a partial recovery of wages in affected industries (hotels and restaurants, transport, non-food goods trade, culture and sports). Secondly, payments to employees in healthcare and education<sup>9</sup> made a positive contribution to

<sup>9</sup> Stimulating payments to health professionals and the postponement of the Unified State Exam (EGE) from June to July.



## WAGES

Chart 19

% change on the same period last year

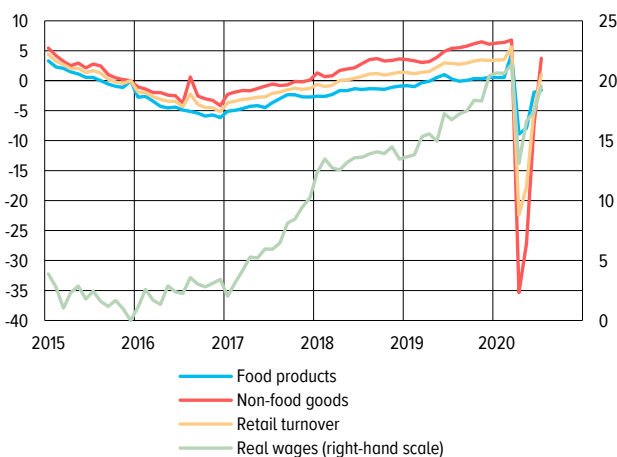


Sources: Rosstat, Bank of Russia calculations.

## RETAIL TURNOVER AND REAL WAGES

Chart 20

% growth on December 2015, SA



Sources: Rosstat, Bank of Russia calculations.

## CONSUMER DEMAND INDICATORS

Chart 21

% change on the same period last year



\* Retail turnover for Rosstat.

Sources: Rosstat, SberData laboratory, Tinkoff.

growth in labour remuneration. Real wages grew by 2.3% (vs +0.6% in June).

## Consumer activity

**Retail trade and services.** The recovery of consumer activity significantly slowed down in August with the expenditure structure shifting towards services. Retail turnover declined compared to the previous month (-0.4% SA; Chart 20), primarily owing to lower demand for food products (-1.1% SA). Sales of non-food goods remained close to the July level. The effects of the lifting of restrictions continued to diminish in the service sector, leading to a slowdown of recovery growth in the value of commercial services (+6.6% SA vs +13.2%).

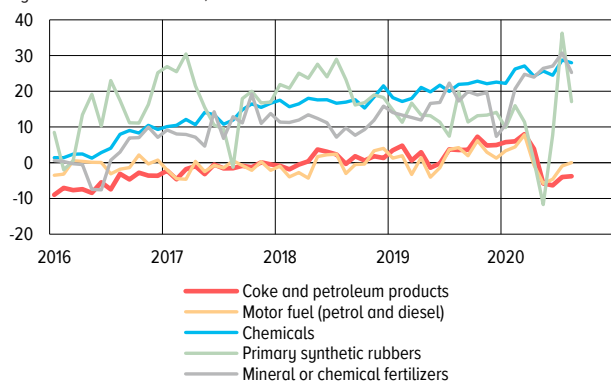
The annualised decline in retail turnover accelerated (-2.7% vs -1.9%; Chart 21). Contrastingly, in nominal terms, retail turnover remained above the last year's readings for the second consecutive month.

**Flash indicators.** In September, flash indicators pointed to a stagnation of consumer activity (Chart 21). Stabilisation in consumer expenditures indicate that the effects of deferred demand have been exhausted. Additional downward pressure can be related to a diminishing effect of government support measures. Further dynamics of consumer activity will largely depend on household income.

## Annex

PETROLEUM PRODUCTS, CHEMICAL SUBSTANCES  
AND PRODUCTS *Chart 1*

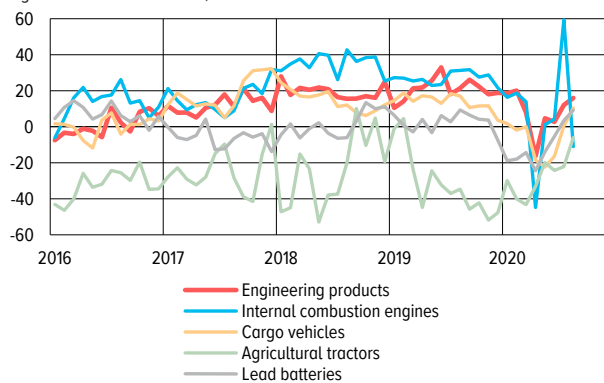
% growth on December 2015, SA



Sources: Rosstat, Bank of Russia calculations.

ENGINEERING PRODUCTS *Chart 4*

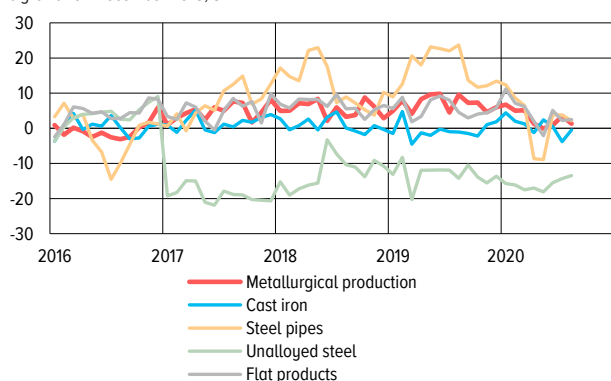
% growth on December 2015, SA



Sources: Rosstat, Bank of Russia calculations.

METALLURGICAL PRODUCTION *Chart 2*

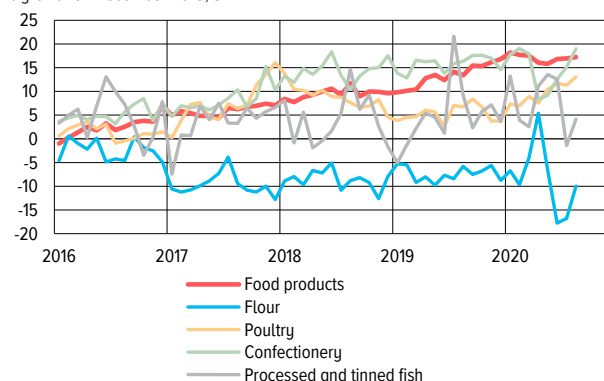
% growth on December 2015, SA



Sources: Rosstat, Bank of Russia calculations.

FOOD PRODUCTS *Chart 5*

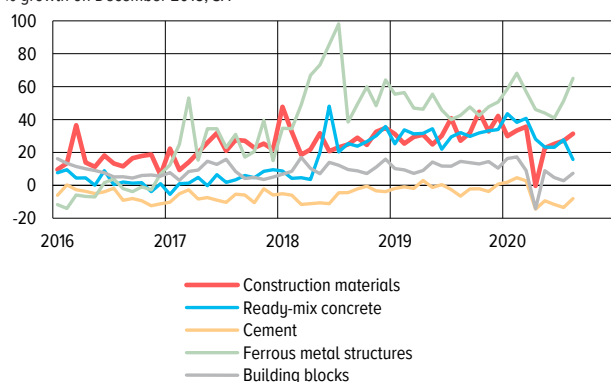
% growth on December 2015, SA



Sources: Rosstat, Bank of Russia calculations.

CONSTRUCTION MATERIALS *Chart 3*

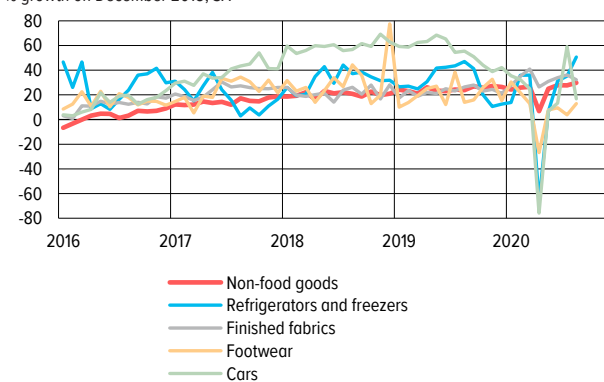
% growth on December 2015, SA



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 – 20.09.2020.

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).

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