



Bank of Russia



# ECONOMY

No. 10 (58) • October 2020

Information and analytical commentary

30 November 2020

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

In October, the worsening epidemiological situation still hindered economic activity in Russia. A considerable decrease in manufacturing and agricultural output offset the rise in mining and quarrying output and trade turnover. Domestic demand continued to revive, while unsteadily, which was evidenced by diverse trends in indirect indicators. The actual aggravation of the epidemiological situation will continue to limit economic activity in the next few months, yet this impact will be less intense than in 2020 Q2. Nonetheless, given the Q3 and October data, the decline in GDP as of the end of 2020 will be closer to 4%. The economy is expected to resume its recovery growth in 2021 Q1.

### CORE ECONOMIC INDICATORS

Table 1

(growth, % YoY, unless indicated otherwise)

	2019	January– October 2019	January– October 2020	2019 Q4	2020 Q1	2020 Q2	2020 Q3	August 2020	September 2020	October 2020
<b>Aggregate output and leading indicators</b>										
GDP <sup>1</sup>	1.3	1.0	-3.5	2.1	1.6	-8.0	-3.6 <sup>2</sup>	-3.3	-3.0	-4.7
Basic output indicator <sup>3</sup>	2.5	2.7	-3.0	2.1	2.0	-6.8	-3.4	-3.1	-2.9	-4.5
Basic output indicator including wholesale	2.3	2.3	-2.7	2.9	2.6	-7.0	-2.8	-2.6	-2.3	-4.1
<b>Production activity</b>										
Industrial output	3.3	3.6	-3.1	2.8	2.9	-6.5	-4.6	-4.2	-3.6	-5.9
Agricultural output	4.3	4.1	1.8	5.6	3.0	3.1	2.7	4.1	1.4	-6.6
Construction	0.6	0.7	-0.3	0.9	1.1	-1.7	-0.3	-0.6	-0.1	-0.1
Freight turnover	0.7	1.1	-5.8	-0.7	-3.9	-8.3	-5.7	-5.0	-3.9	-4.0
Wholesale turnover	1.6	-0.1	-0.6 <sup>4</sup>	8.4	6.2	-8.1	1.1	0.4	1.5	-1.9 <sup>4</sup>
<b>Investment activity</b>										
Fixed capital investment	1.7	1.0 <sup>5</sup>	-3.8 <sup>5</sup>	2.3	1.2	-7.6	-4.2	-3.7 <sup>5</sup>	-3.2 <sup>5</sup>	-3.1 <sup>5</sup>
Gross fixed capital formation	1.5	1.8 <sup>5</sup>	-6.0 <sup>5</sup>	2.9	1.8	-11.7	-	-	-	-
<b>Consumption, savings, income</b>										
Real household disposable income	1.0	0.9	-4.3	1.8	0.7	-8.4	-4.8	-	-	-
Household final consumption expenditure	2.5	2.6 <sup>5</sup>	-9.8 <sup>5</sup>	2.5	3.3	-22.2	-	-	-	-
Retail turnover	1.9	1.8	-4.6	2.1	4.4	-16.0	-2.5	-2.7	-3.0	-2.4
Commercial services to households	0.5	0.3	-18.1	0.2	-1.9	-36.1	-17.4	-16.8	-12.0	-13.4
<b>Labour market</b>										
Unemployment, SA (% of labour force) <sup>5</sup>	4.6	4.6	5.7	4.5	4.5	6.1	6.4	6.6	6.5	6.3 / 6.3 <sup>6</sup>
Nominal wages	9.5	7.2	5.7	8.2	8.8	3.0	5.4	3.7	6.0	...
Real wages	4.8	2.3	2.6	4.6	6.2	-0.1	1.8	0.1	2.2	...

<sup>1</sup> Monthly assessment by the Ministry of Economic Development.

<sup>2</sup> Preliminary estimate by Rosstat.

<sup>3</sup> Bank of Russia's assessment. Comprises manufacturing, agriculture, retail, construction, and transport.

<sup>4</sup> Estimate based on up-to-date figures.

<sup>5</sup> Bank of Russia's assessment.

<sup>6</sup> Not seasonally adjusted.

Note: the background shading in the table depends on the dates of figures: the lighter is the colour, the more recent are the figures/estimates.

– January–September

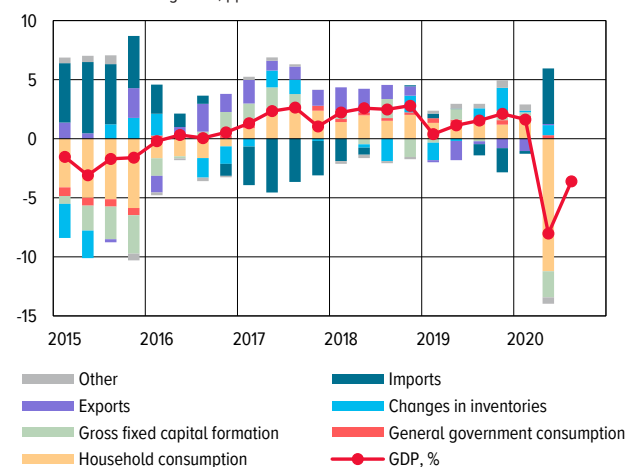
– January–June

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

## GDP BY EXPENDITURE

Chart 1

Contribution to annual growth, pp

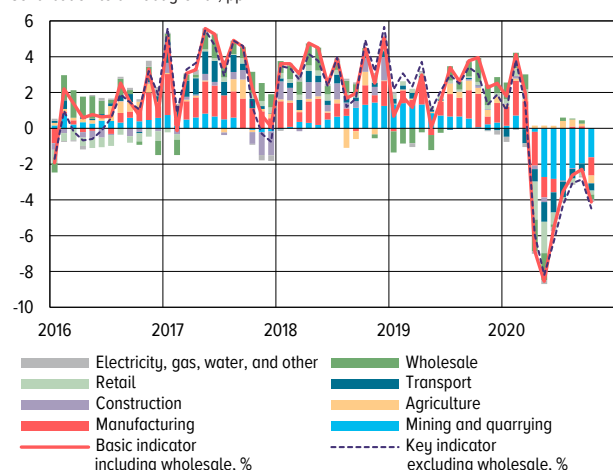


Sources: Rosstat, Bank of Russia calculations.

## BASIC OUTPUT INDICATOR

Chart 2

Contribution to annual growth, pp

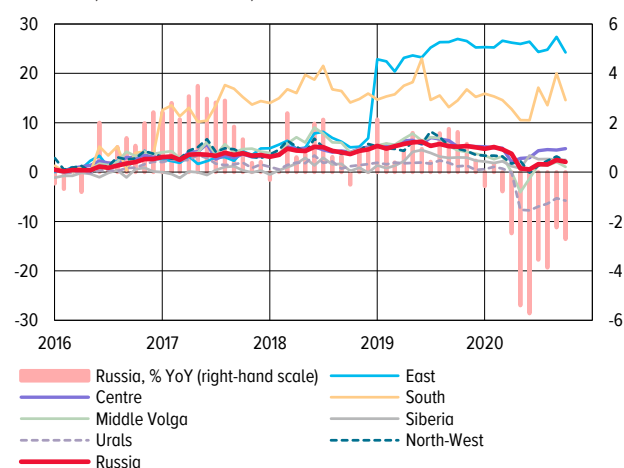


Sources: Rosstat, Bank of Russia calculations.

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.

## Aggregate output

**GDP.** According to Rosstat's preliminary estimate, the annual decline in GDP totalled 3.6% in 2020 Q3 (Chart 1). The decrease turned out to be lower than forecast in the Bank of Russia's Monetary Policy Report (No. 4, 2020). This deviation from the forecast is explained by the facts that Rosstat revised the data on industrial output and the recovery growth of final consumption exceeded its earlier estimates.

According to the Bank of Russia, household final consumption was the major contributor to the economic revival in Q3 amid the cancellation of restrictions, the realisation of deferred demand, and the recovery in incomes, including owing to the implemented budget-funded support measures and the easing of monetary conditions. Fixed capital investment also recovered, which will probably slow down the annual reduction in gross fixed capital formation in Q3. Nevertheless, as shown by recent foreign trade indicators, export quantities plummeted in Q3, which adversely affected the economic recovery. Imports decreased due to foreign travel restrictions and the weaker ruble.

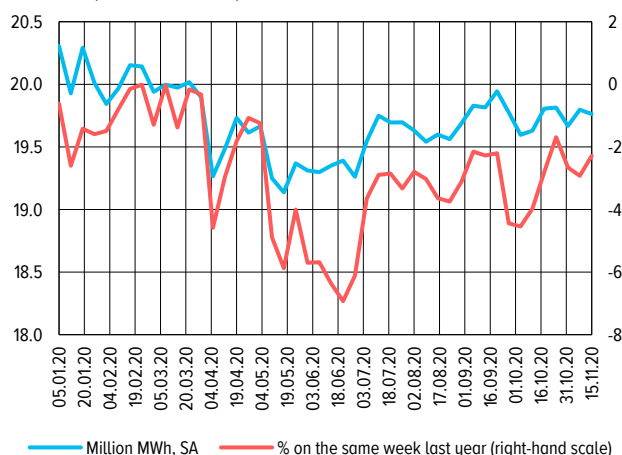
**GDP forecast.** The actual worsening of the epidemiological situation and the partial reintroduction of related restrictions, as well as the decline in external demand amid a resurgence of coronavirus cases in a range of western countries may cause a decrease in economic activity in Q4. This is also evident from up-to-date figures for October. According to the Bank of Russia's estimate, GDP will shrink by 4.0–5.0%. Recovery growth is expected to resume in 2021 Q1.

The **basic output indicator**<sup>1</sup> in October showed a faster annual decrease in business activity in the key industries (Chart 2). This predominantly resulted from the decline in manufacturing and agricultural output and the contracted wholesale turnover (for details, refer to the sections 'Production activity' and 'Agriculture'). To a certain extent, output was

<sup>1</sup> Assessment by the Bank of Russia. It reflects annual changes in production activity by key industry (manufacturing, agriculture, trade, construction, and transport). It is calculated both including and excluding wholesale, since data on wholesale have publication lags.

ELECTRICITY CONSUMPTION, ADJUSTED  
FOR CALENDAR AND TEMPERATURE EFFECTS  
IN 2020 (OVER A WEEK)

Chart 4

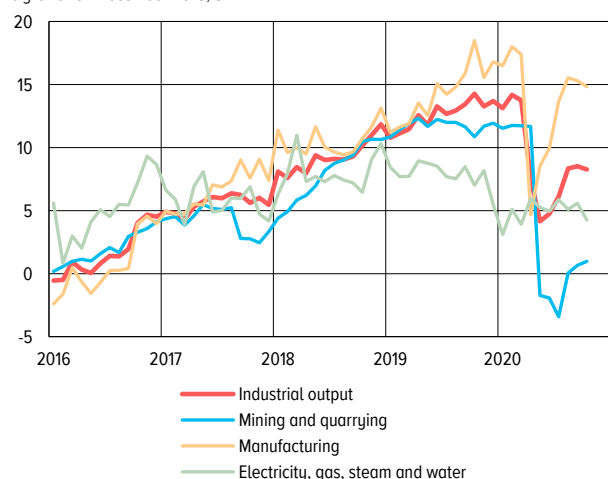


Sources: JSC System Operator of the United Power System, Bank of Russia calculations.

INDUSTRIAL OUTPUT

Chart 5

% growth on December 2015, SA

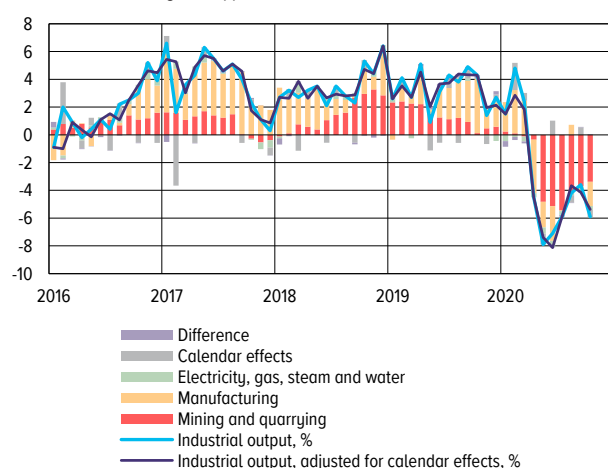


Sources: Rosstat, Bank of Russia calculations.

INDUSTRIAL OUTPUT

Chart 6

Contribution to annual growth, pp



Sources: Rosstat, Bank of Russia calculations.

supported owing to the slowdown of the annual reduction in retail turnover and mining and quarrying output.

**Electricity consumption.** As assessed by the Bank of Russia, the seasonally adjusted (SA) month-on-month decrease in electricity consumption equalled 0.4% in October. This decline was induced by stagnating production and the worsening epidemiological situation (Charts 3 and 4). Electricity consumption decreased in the majority of regional power systems, except the Centre. In annualised terms,<sup>2</sup> the decline in electricity consumption accelerated to 2.7% (vs -2.2% in September).

In the first half of November, power consumption stabilised at the October level. According to the Bank of Russia's estimate, electricity consumption may decrease by 2.1%<sup>2</sup> in November.

## Production activity

**Industrial output.** In October, industrial output remained close to the level recorded in the previous month (SA). The expansion of mining and quarrying output was offset by the contraction of output in manufacturing and EGSW.<sup>3</sup> Overall, industrial output stayed below its 2018 reading (Chart 5).

In October, the annual decline in industrial output totalled 5.9%, and 5.4% adjusted for calendar effects (vs -3.6% and -4.1%, respectively, in September). Mining and quarrying output remained the major drag causing this annual decrease (Chart 6).

**Mining and quarrying.** Mining and quarrying output continued to bounce back slowly (SA), rising by 0.3% in October (vs 0.6% in September; Chart 7). Amid a surge in coal prices in Europe, coal output expanded for the first time since June 2020. Oil production remained close to the levels recorded in August–September since Russia had to comply with the OPEC+ restrictions. Furthermore, natural gas output shrank in October because European consumers reduced their demand.

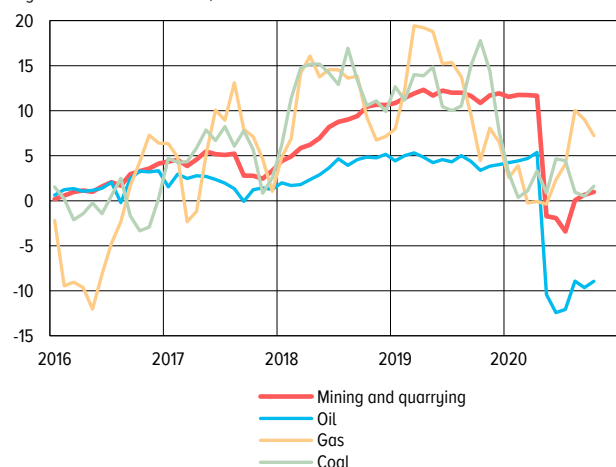
<sup>2</sup> Adjusted for calendar and temperature effects.

<sup>3</sup> Electricity, gas and steam supply; air conditioning; water supply; waste and pollution management.

## MINING AND QUARRYING

Chart 7

% growth on December 2015, SA

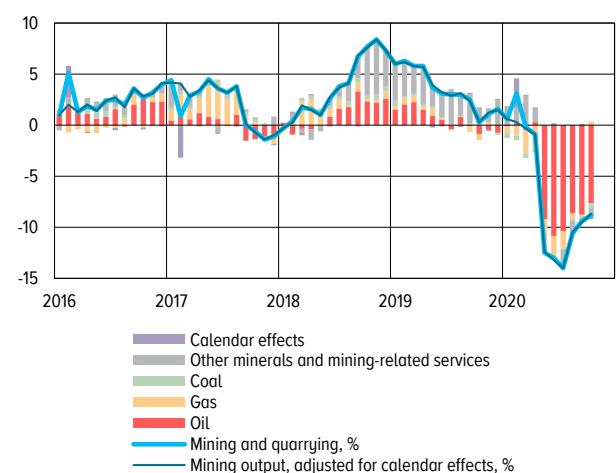


Sources: Rosstat, Bank of Russia calculations.

## MINING AND QUARRYING

Chart 8

Contribution to annual growth, pp

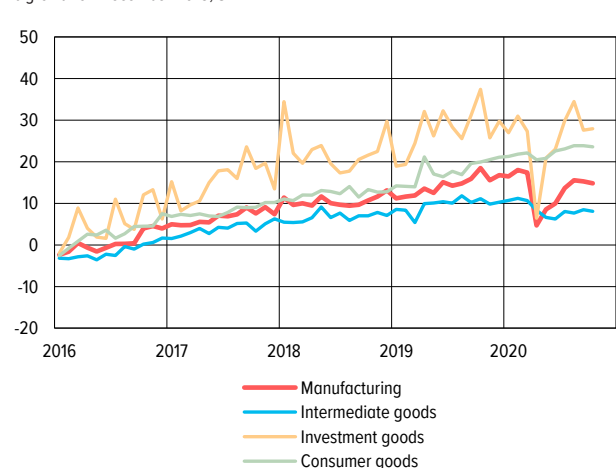


Sources: Rosstat, Bank of Russia calculations.

## MANUFACTURING

Chart 9

% growth on December 2015, SA



Sources: Rosstat, Bank of Russia calculations.

The decline in year-on-year output in mining and quarrying, adjusted for calendar effects, slowed down to 8.7% in October (vs -9.5% in September; Chart 8).

**Manufacturing.** Manufacturing output contracted (SA) in October, dragged down by the production of intermediate and consumer goods. The output of investment goods demonstrated weak growth (Chart 9).

Year-on-year output in manufacturing industries, adjusted for calendar effects, shrank by 3.4% (vs -0.5% in September). According to the Bank of Russia, this annual decline was mostly caused by a downturn in investment and intermediate goods production (Chart 10).

**Intermediate goods.** The output of intermediate goods decreased (SA) due to petroleum products. Contrastingly, output in all other categories of intermediate goods continued to expand. This upward trend was most noticeable in ferrous metal production as a result of increased demand for certain products (steel pipes) and in non-ferrous metallurgy owing to favourable price movements. As before, intermediate goods output was supported by the exchange rate (Annex; Charts 1 and 2).

**Investment goods.** In October, the output of investment goods remained close to the previous month's level, which corresponds to the 2020 Q1 average. The output of construction materials moderately increased (SA). Engineering goods production stayed close to its previous month's reading, with its components showing diverse trends. The output of motor vehicles continued to expand, while the production of electric equipment, computers, and electronic devices shrank (Annex; Charts 3 and 4).

**Consumer goods.** Consumer goods output slightly declined (SA) in October, dragged down by the contracted output of non-food goods, mostly pharmaceuticals. Conversely, the output of durable goods (motor vehicles, household appliances, and furniture) continued to expand, driven by a favourable ratio of prices for domestic and imported goods. The output of food products remained close to its level recorded in the previous month (Annex; Charts 5 and 6).

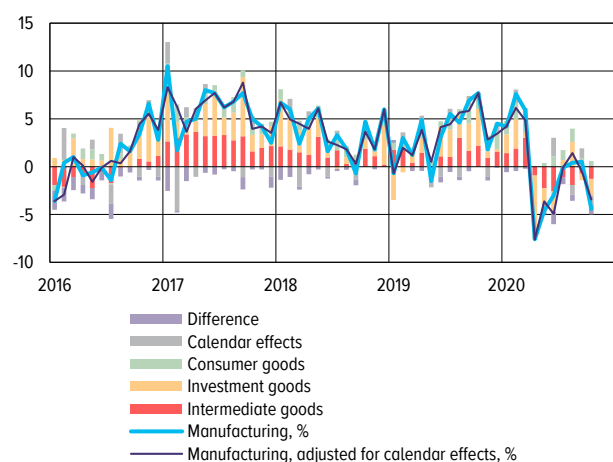
**Business surveys.** The survey indicators of the business environment demonstrated diverse



## MANUFACTURING

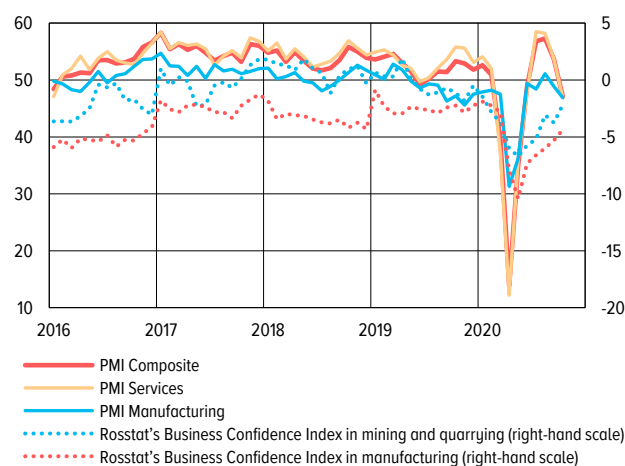
Chart 10

Contribution to annual growth, pp



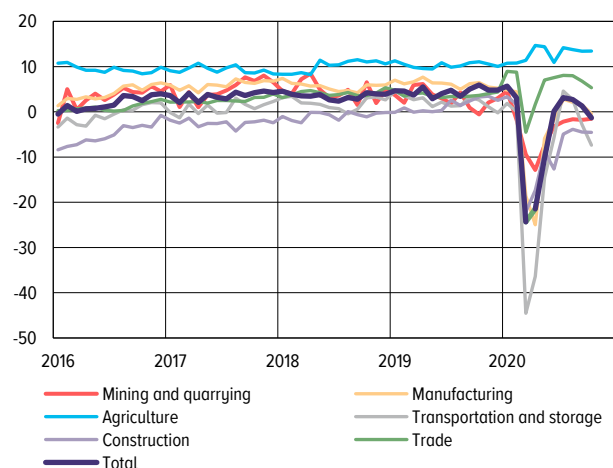
Sources: Rosstat, Bank of Russia calculations.

## 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.

dynamics in October. Russia's composite PMI again dropped below 50 points in October, specifically to 47.1 (vs 53.7 in September; Chart 11). A considerable decline in business activity was observed in both the service sector (46.9 in October vs 53.7 in September) and manufacturing (46.9 in October vs 48.9 in September), which was explained by the aggravation of the epidemiological situation and concerns about a tightening of restrictions.

According to the monitoring of companies carried out by the Bank of Russia, the Business Climate Index was falling faster in October (Chart 12). The estimates of the present situation and expectations deteriorated most significantly among transport, construction and industrial enterprises. Contrastingly, business sentiment remained positive in agriculture and trade.

Rosstat's Business Confidence Indices (alternative indicators of economic activity) also continued to improve in October, and most noticeably – in mining and quarrying.

**Agriculture.** Agricultural output shrank by 6.6% in October in annualised terms (vs +1.4% in September) predominantly due to the downward trend in crop production. This was explained by the high base of the previous year with the record output of sunflower and sugar beet – these are the main crops, the harvesting of which continues until late autumn. Cattle and poultry output contracted by 0.3% in October year-on-year, while all other components in livestock production maintained an upward trend.

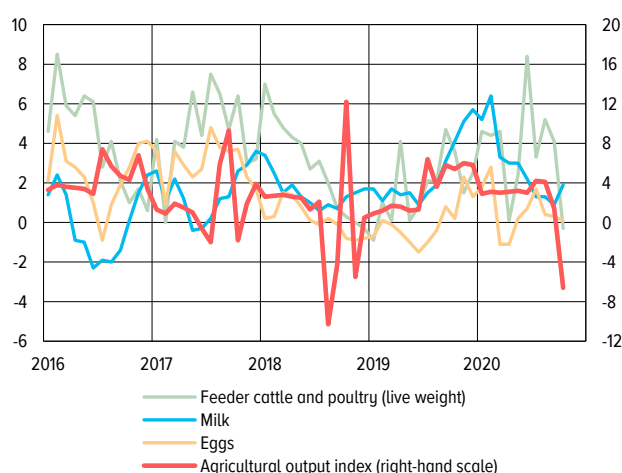
Moreover, annual agricultural output expanded by 1.8% over January–October 2020. According to recent data from Russia's Ministry of Agriculture, the overall grain harvest across Russia totalled 136.7 million tons in bunker weight<sup>4</sup> as of 17 November, which is 9.2% more YoY. Russia's Ministry of Agriculture raised its grain harvest forecast for 2020 to 127.5 million tons (+5.2% vs 2019). Russian experts' forecasts are considerably higher, up to 132 million tons. They predict the second largest harvest after the 2017 record.

<sup>4</sup> Gross weight before grain cleaning and processing.

## AGRICULTURE

Chart 13

% change on the same month last year

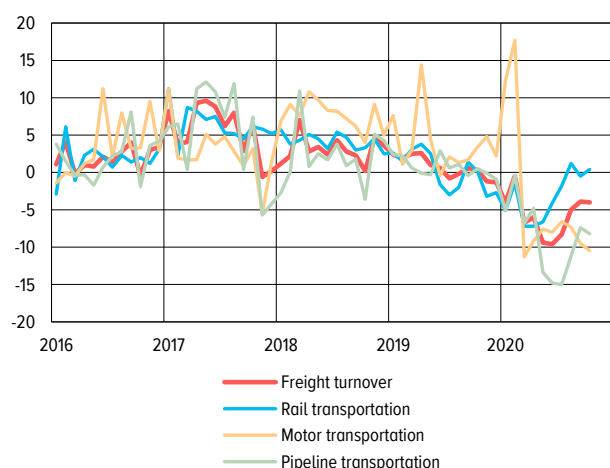


Source: Rosstat.

## FREIGHT TURNOVER

Chart 14

% change on the same month last year

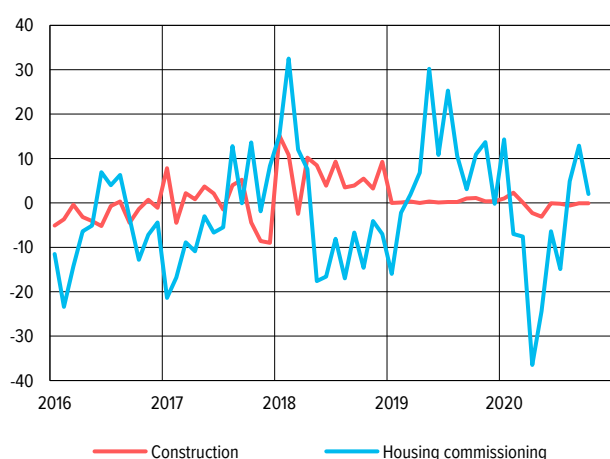


Source: Rosstat.

## CONSTRUCTION

Chart 15

% change on the same month last year



Source: Rosstat.

**Transport.** In October, rail freight turnover increased by 0.4% in annualised terms (vs -0.5% in September; Chart 14). This was driven by a slower reduction in the transportation of ferrous metals, oil and petroleum products. Dynamics in rail transportation stayed close to zero beginning from September 2020.

Overall, the decline in freight turnover slightly sped up in October, to 4.0% in annualised terms (vs -3.9% in September). The major drag was motor transportation declining because of negative trends in retail (refer to the section 'Consumer activity').

**Construction.** After the decrease in April–May, dynamics in construction stayed close to zero, with the volume of construction works shrinking by 0.1% (vs -0.1% in September; Chart 15). This near-zero trend was also observed throughout 2019. Nonetheless, this may be explained by the specifics of statistics.<sup>5</sup> The annual increase in housing commissioning slowed down to 2.0% in October (vs 12.9% in September), which could be explained by shifts in housing delivery terms, compared to normal seasonal trends, due to the earlier pandemic-induced restrictions. In 2021, the commissioning of residential real estate will be supported by an increase in sales driven by the preferential mortgage lending programme.

## Investment activity

In 2020 Q3, the reduction in fixed capital investment slowed down to 4.2% (vs -7.6% in Q2; Chart 16). The annual decline in investment activity continued in October, including due to the annual decrease in both engineering imports and investment goods output. Contrastingly, the railway transportation of construction materials was up YoY.

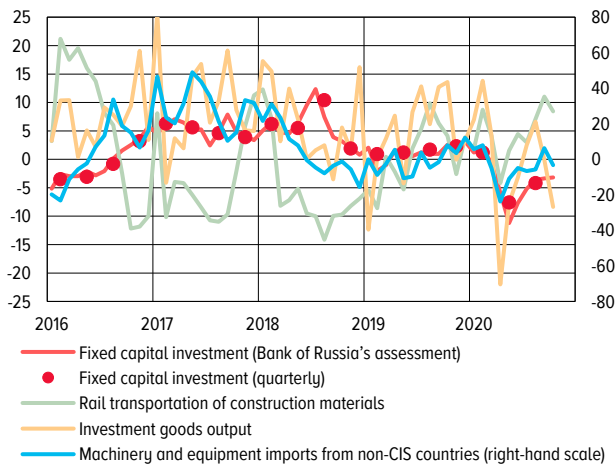
According to the Bank of Russia, investment activity showed month-on-month growth (SA) in October. That said, the indirect indicators of investment demand were changing in a diverse manner.

<sup>5</sup> Rosstat's initial data on construction works and final assessments may considerably differ since contractors generally submit incomplete (most often, understated) statistics, subsequently adjusting this information throughout the calendar year.

## INVESTMENT ACTIVITY INDICATORS

Chart 16

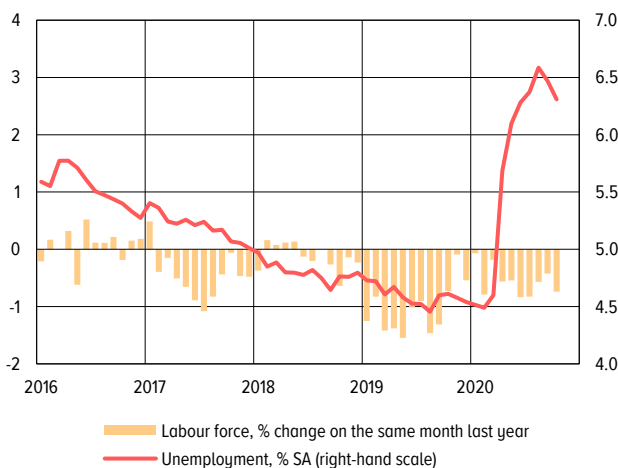
% change on the same period last year



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

## UNEMPLOYMENT AND LABOUR FORCE

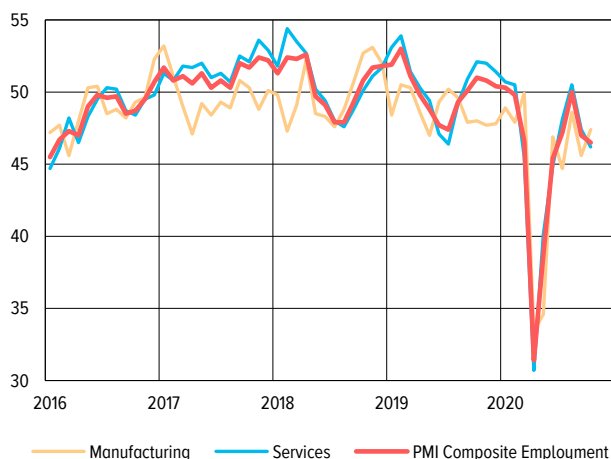
Chart 17



Sources: Rosstat, Bank of Russia calculations.

## PMI IN EMPLOYMENT (SA)

Chart 18



Source: IHS Markit.

In 2020 Q4, investment activity is expected to weaken further in annualised terms. This is because this indicator is highly inertial, which is associated with limited opportunities for revising investment plans and strict contractual terms. Nonetheless, the Government's anti-crisis measures and the easing of monetary conditions will continue to support fixed capital investment in 2020 Q4 and 2021.

## Labour market and incomes

**Employment.** In October 2020, demand for labour continued to bounce back. Employers raised their demand for manpower, which pushed down unemployment to 6.3% (SA) (vs 6.5% in September; Chart 17). However, the competition for vacant jobs was decreasing unevenly and, as evident from indirect indicators, was the highest among low-skilled workers (due to the outflow of migrants) and staff combating the coronavirus pandemic. In contrast, employment edged down in all other sectors. According to IHS Markit, the employment PMI was steadily below 50 points, suggesting job cuts in both manufacturing and services (Chart 18).

Pursuant to data from the Federal Service for Labour and Employment (Rostrud), the number of registered unemployed people decreased in October, for the first time in 2020, and moreover, considerably – by 0.2 million, to 3.5 million people (Chart 19). Furthermore, the number of job seekers receiving unemployment benefits lowered significantly (by 1.6 million people), which was because the period for the payment of benefits assigned according to the simplified procedure terminated.<sup>6</sup> Considering the specifics of benefit payments (benefits are assigned once in 12 months and paid for no more than 6 months), the number of registered unemployed people will go down in the next six months.

**Wages (September).** In September 2020, the annual rise in nominal wages bounced back to

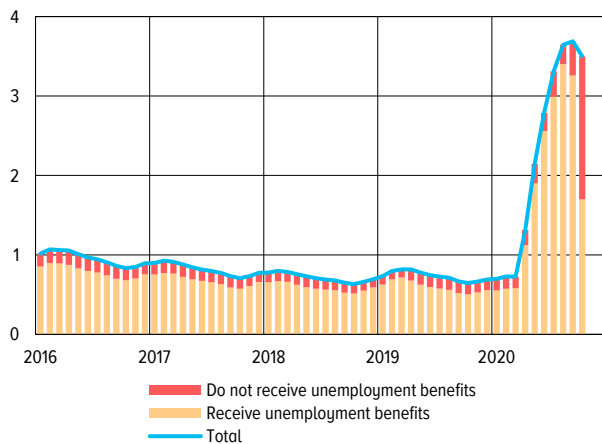
<sup>6</sup> According to Russian Federation Government Resolution No. 346, dated 27 March 2020, people dismissed after 1 March 2020 or individual entrepreneurs who terminated their activity and unemployed persons whose benefit payment periods expired after 1 March 2020 were entitled to receive unemployment benefits during a period of no more than six months and at latest until 1 October 2020.



## REGISTERED UNEMPLOYED

Chart 19

Million people

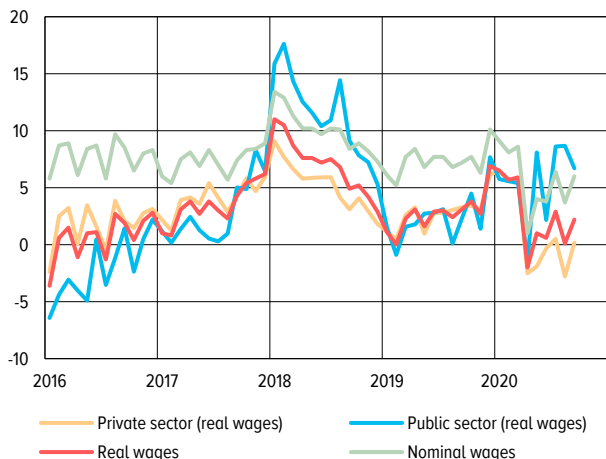


Sources: Federal Service for Labour and Employment, Bank of Russia calculations.

## WAGES

Chart 20

% change on the same period last year



Sources: Rosstat, Bank of Russia calculations.

its July level, equalling 6.0% (vs +3.7% in August; Chart 20). A high growth rate of nominal wages in the public sector (primarily, in healthcare) was supported by budget-funded measures. Real wages resumed an upward trend in the private sector. As regards the economy in general, real wages increased by 2.2% in annualised terms (vs +1.1% in August). The growth rate of real wages was close to the level recorded in 2019 H1.

## Consumer activity

**Retail and services.** The revival of consumer activity was strongly hindered due to the aggravation of the epidemiological situation and the tightening of restrictions in the second half of October 2020. Specifically, the sales of non-food goods stayed close to the previous month's level (SA; Chart 21), and the rise in commercial services equalled 1.9% (vs +4.6% in September, SA). Food sales increased (+0.7% SA) after weak dynamics in previous months. This recovery was largely because households were stocking up with non-perishable products and demand edged up, compared to the service sector, amid expectations of a further rise in coronavirus cases and new restrictions. Overall retail turnover expanded by 0.3% (SA). The annual decline in retail turnover slowed down to 2.4% (vs -3.0% in September; Chart 22).

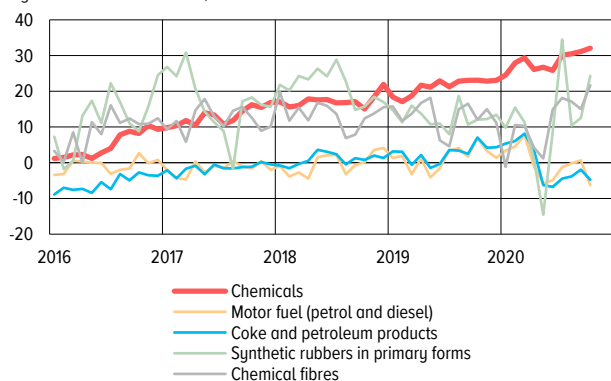
**Up-to-date figures.** According to up-to-date figures, consumer activity weakened again in the first three weeks of November 2020 (Chart 22). As the epidemiological situation worsened, households started to return to the consumption pattern observed in spring, increasing their expenses for food and medicines and reducing spending for non-food goods and services. Consumer demand may continue to decline if new restrictions are introduced and employees switch to remote work.

Sources: Rosstat, SberIndex laboratory, Tinkoff.

## ANNEX

PETROLEUM PRODUCTS, CHEMICAL SUBSTANCES  
AND PRODUCTS *Chart 1*

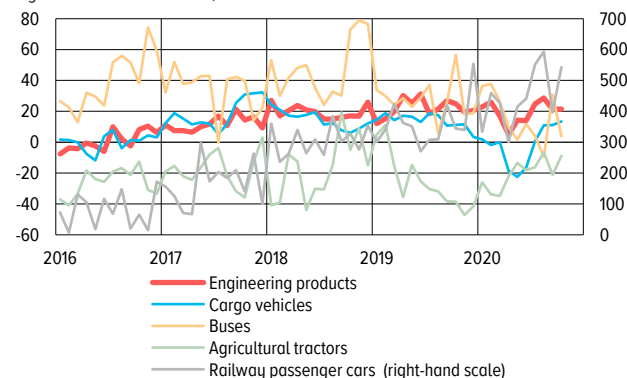
% growth on December 2015, SA



Sources: Rosstat, Bank of Russia calculations.

ENGINEERING PRODUCTS *Chart 4*

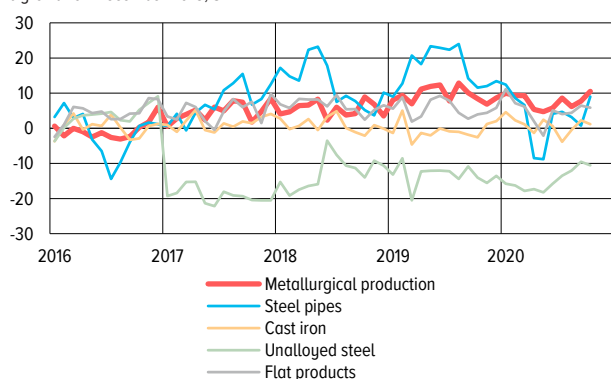
% growth on December 2015, SA



Sources: Rosstat, Bank of Russia calculations.

METALLURGICAL PRODUCTION *Chart 2*

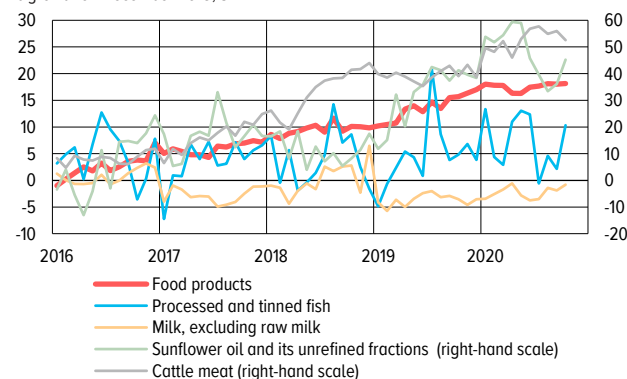
% growth on December 2015, SA



Sources: Rosstat, Bank of Russia calculations.

FOOD PRODUCTS *Chart 5*

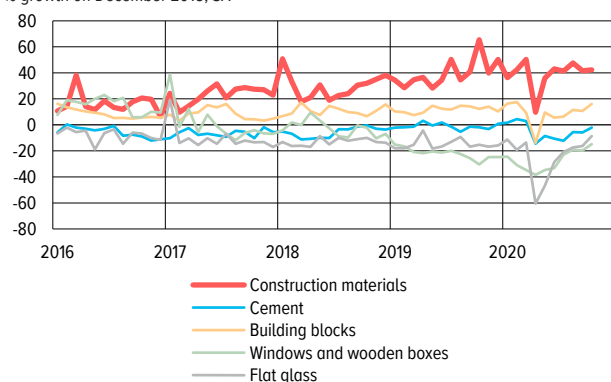
% growth on December 2015, SA



Sources: Rosstat, Bank of Russia calculations.

CONSTRUCTION MATERIALS *Chart 3*

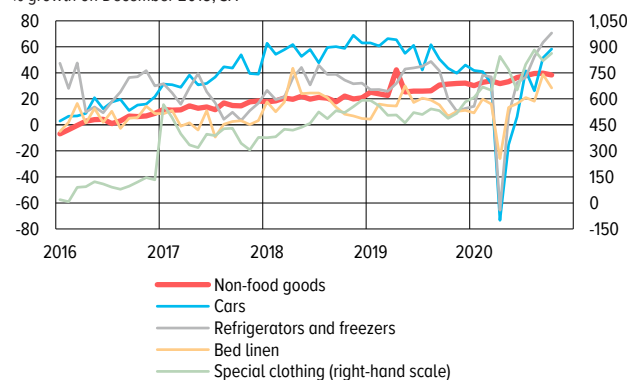
% growth on December 2015, SA



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 – 25.11.2020.

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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