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Central Bank of the Russian Federation



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Economy: facts, assessments and comments (June 2018)

According to the Bank of Russia's estimates, annual economic growth rates sped up to 1.8-2.2% in the second quarter, though the June statistics suggest that economic activity in industrial production slowed down somewhat. Investment and consumer demand fuelled GDP growth. Russia's hosting of the FIFA World Cup proved another tailwind. Estimates suggest that demand of foreign football fans brought up an increase in hotel and transport services, as well as in catering. A stable labour market and consumer lending underpinned consumer activity. Further expansion in demand will bring inflation back to the 4% target.

Economy in June 2018 (year-on-year growth, %, unless indicated otherwise)

	2017	2018 Q1	May 2018	June 2018	2018 Q2
Output of goods and services by key industries	2.4	2.3	3.7
Industrial output	2.1	2.8	3.7	2.2	3.2
Agricultural output	2.4	2.6	2.3	0.9	1.9
Freight turnover	5.5	2.4	3.1	2	3.3
Construction	-1.4	-4.0	5.6	-1.3	0.9
Retail trade turnover	1.3	2.4	2.4	3	2.7
Unemployment rate* / seasonally adjusted**	5.2	5.1/4.8	4.7/4.8	4.7/4.9	4.8/4.8
Nominal wage	6.7	12.7	10.2	9.7	9.9
Real wage	2.9	10.2	7.6	7.2	7.4

* As % of labour force.

** Bank of Russia estimate.

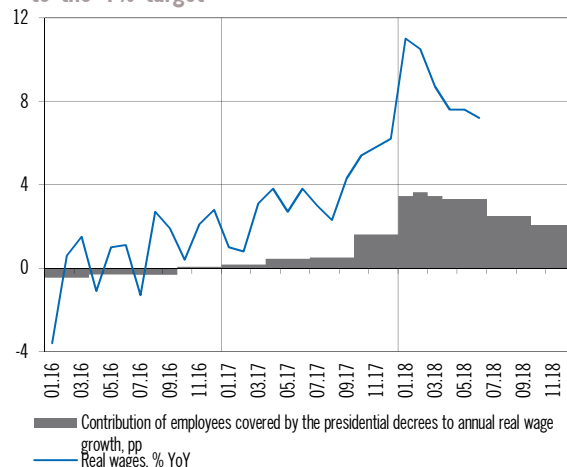
Source: Rosstat.

FIFA World Cup propped up growth

According to the Bank of Russia's estimate, the annual GDP growth rate stood at 1.8-2.2% in the second quarter. This is suggested by the movements in supply and demand. The increase in most GDP components by expenditure (gross fixed capital formation, households' final consumption expenditure and exports) in the second quarter was consistent with the Bank of Russia's forecast.

Fixed capital investments kept growing on a month-on-month basis (seasonally adjusted) in June. Based on 2018 Q2 results, their annual growth rate is estimated at 2.5-3.5%. Meanwhile, given the high base of changes in inventories, gross capital formation may post a negative annual growth rate in the second quarter of 2018.

Chart 1
Wage dynamics are consistent with inflation's return to the 4% target

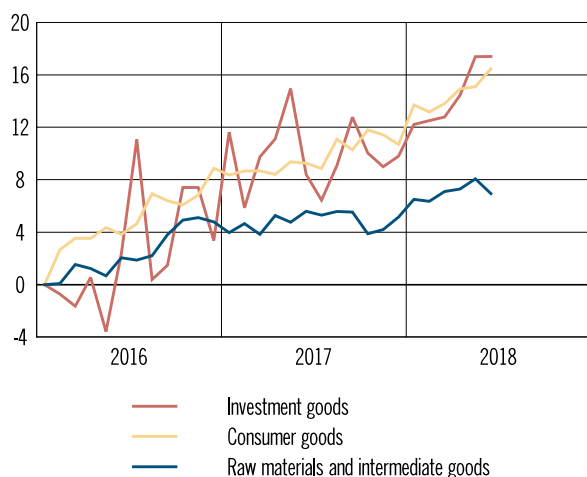


Sources: Rosstat, Monetary Policy Department calculations and estimates.

Local factors in the metallurgy reduced the output of raw materials and intermediate goods

Chart 2

Growth as % on January 2016, seasonally adjusted



Sources: Rosstat, Monetary Policy Department calculations and estimates.

Households are gradually increasing consumption without posing any risks for inflation. Growth in retail trade turnover sped up to 3% YoY in June 2018, with a further contribution from the FIFA World Cup (approx. 0.2 pp. YoY). Growth in food sales expectedly showed faster acceleration than that of non-food goods in June 2018. Estimates suggest that the impact of the FIFA World Cup will be the most pronounced in catering and certain services (hotels and transports).

Consumer demand went up as the labour market was stable. According to preliminary estimates, real wages grew by 7.2% YoY in June (vs 7.6% in May). These dynamics come from the fading effect of wage increase in certain categories of public sector employees and one-off payments in the private sector at the beginning of the year. Nevertheless, real wage growth still exceeds the readings of past years (Chart 1), gradually bringing inflation back to the 4% target. The current dynamics are in line with the Bank of Russia's baseline scenario.

Retail lending continued to support consumer demand, being the factor behind approx. 4% of retail sales in recent months. That said, estimates suggest that the current growth rates of consumer lending pose no risk to inflation as income dynamics remain moderate. Growth in final consumption expenditure of households is estimated at 3.0-3.5% in the second quarter of 2018. Domestic consumer demand expanded less pronouncedly than exports.

The increased demand for domestic goods and services by foreign football fans supported exports. Estimates suggest that export quantities grew by 5-6% YoY in the second quarter of 2018.

Metallurgy brought industrial output down in June

Growth in industrial production slowed somewhat in June 2018 after a considerable acceleration in April and May. Industrial production shrank in June compared with previous month (adjusted for seasonal and calendar effects).

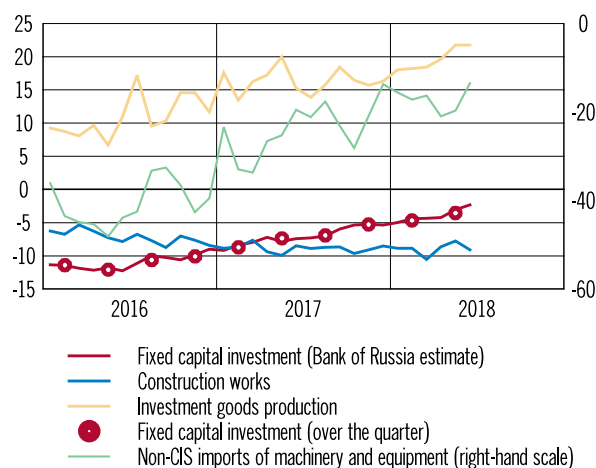
Industrial output dropped following the decline in raw material processing (Chart 2). Metallurgical output shrank by 21% MoM (seasonally adjusted), having grown steadily in previous months. Having said that, the output of most metallurgical products, barring aluminium and gold, remained stable, Rosstat data suggest. Growth in the mining and quarrying sector revived as foreign demand expanded.

Slowly and unsteadily recovering business activity in construction¹ (construction works showed another drop in June 2018, Chart 3) constrained demand for certain construction materials, slowing down production of investment goods in June. However, engineering output continued to grow.

Investment activity is on the rise despite the slack performance in construction

Chart 3

Growth as % on January 2014, seasonally adjusted



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

¹ The April issue of the economic commentary noted that the output of investment goods will be constrained by a slow recovery in business activity in construction and low non-price competitiveness of domestic investment goods.

Overall high growth rates of investment goods production in 2018 are an important indicator of economic growth.

According to the Bank of Russia's estimates, the annual GDP growth rate is poised to stand at

1.5-2.0% in 2018 Q3-Q4. The economy is close to the potential. In this environment, expanding consumer demand will gradually bring inflation up to 3.5-4.0% by the end of 2018.

Cut-off date – 18 July 2018.

A soft copy of the information and analytical material is published on the Bank of Russia website (<http://www.cbr.ru/DKP/>).

Please send your comments and suggestions to svc_analysis@cbr.ru.