



Bank of Russia



ECONOMY

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Information and analytical commentary

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Economy: Facts, Assessments and Comments (December 2019)

Annual GDP growth came in at 1.3% in 2019, which corresponds to the upper bound of the Bank of Russia's forecast range. In December 2019, growth in economic activity accelerated compared to November. Growth in industrial production was largely boosted by output in manufacturing and mining and quarrying. Leading indicators of investment activity pointed to a continuing upward trend in the annual growth of fixed capital investment. Growth in retail sales remained high despite a somewhat slower pace compared with November. Unemployment held at its historical low in December, while real wage growth slowed down. Meanwhile, freight turnover continued to decline. Survey data pointed to a continuing instability in economic performance. According to Bank of Russia estimates, GDP growth in 2020 will stand at 1.5–2.0%. It will be supported by an expansion in domestic demand on the back of the improved dynamics of real wages and accelerated budget spending. Risks to the forecast are posed by the weakening of external demand amid a likely slowdown in global economic growth caused by the coronavirus and other external factors.

CORE ECONOMIC INDICATORS

(growth, % YoY, unless indicated otherwise)

Table 1

	2017	2018	Q1 2019	Q2 2019	Q3 2019	November 2019	December 2019	Q4 2019
Output of goods and services by key industry	2.4	3.1	0.9	1.7	2.7	1.5	...	...
Industrial output	2.1	2.9	2.1	3.0	2.9	0.3	2.1	1.7
Construction	-1.2	6.3	0.1	0.2	0.5	0.3	0.4	0.9
Freight turnover	5.6	2.7	2.3	1.4	-0.2	-1.2	-1.7	-0.9
Agricultural output	2.9	-0.2	1.1	1.2	5.1	5.8	...	...
Retail trade turnover	1.3	2.8	1.9	1.6	0.9	2.3	1.9	2.0
Wholesale trade turnover	4.4	3.8	-6.3	-1.9	4.2	9.4	...	...
Paid services to households	0.2	1.4	-0.6	-1.0	-0.6	-0.6	-1.3	...
Unemployment rate, seasonally adjusted* (% of labour force)	5.2	4.8	4.8 / 4.6	4.6 / 4.6	4.4 / 4.6	4.6 / 4.6	4.6 / 4.5	4.6 / 4.5
Nominal wage	6.7	11.6	6.5	7.7	7.4	6.3	...	...
Real wage	2.9	8.5	1.3	2.6	3.0	2.7	...	...
Real household disposable money income	-0.5	0.1	-1.8	1.0	3.1	–	–	1.1

* Bank of Russia estimate.

Source: Rosstat.

GDP

In accordance with Rosstat's primary estimate, annual GDP growth totalled 1.3% in 2019 (Chart 1) which corresponds to the upper bound of the Bank of Russia's forecast range of 0.8–1.3%.¹

Concurrent with the 2019 data, Rosstat released revised dynamics for GDP and its expenditure components for 2018. Overall economic growth estimates rose from 2.3% to 2.5%. Significantly revised were households' final consumption expenditure (from 2.3% to

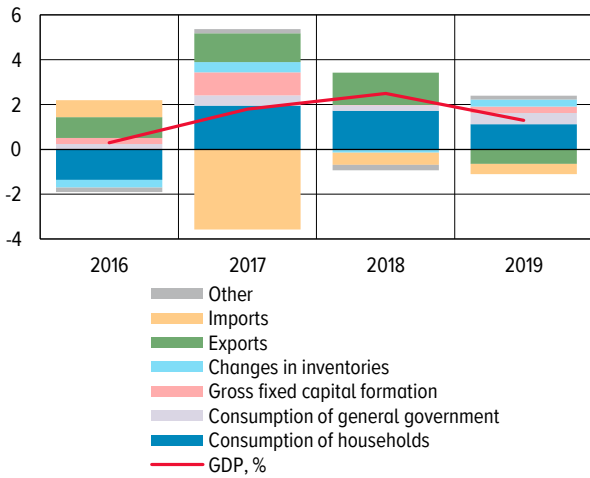
3.3%) and public administration expenditure (from 0.3% to 1.3%). Higher growth in the final consumption expenditure of households compared with Rosstat's previous estimates was suggested by the dynamics of retail sales and paid services to households in 2018 (Chart 3). The upward revision of general government consumption might be attributed to accelerated budget expenditure for civil servant wages, purchases of goods, works and services, etc. in 2018. Considerable downward adjustments were made to the dynamics of gross fixed capital formation (GFCF) (from 2.9% to 0.1%). This might be associated with a downward

¹ See *Monetary Policy Report* (No. 4 (28), December 2019).

GDP

Chart 1

Contribution to annual growth, pp

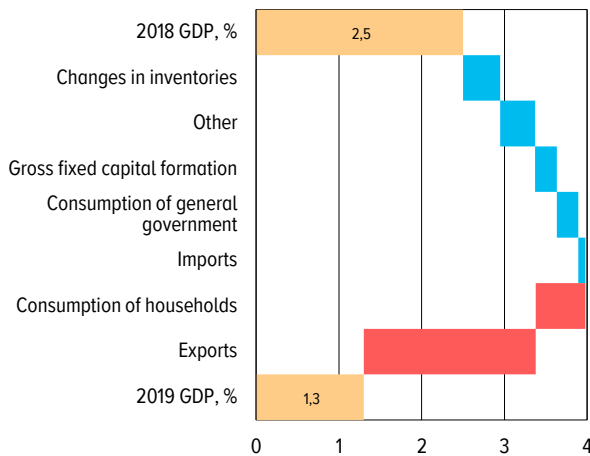


Sources: Rosstat, Bank of Russia calculations.

DECOMPOSITION OF CHANGES IN ANNUAL GDP GROWTH

Chart 2

Contribution to annual growth, pp

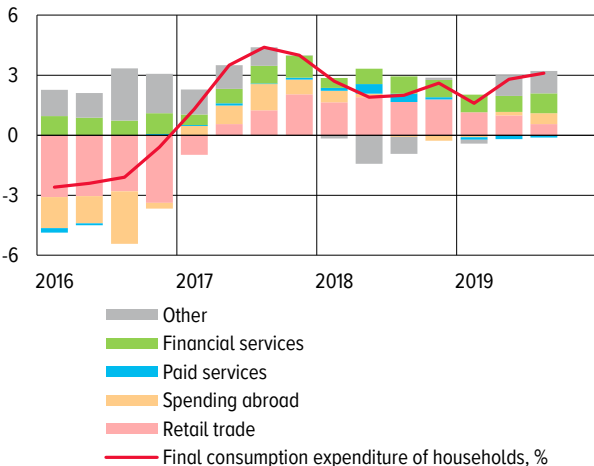


Sources: Rosstat, Bank of Russia calculations.

FINAL CONSUMPTION EXPENDITURE OF HOUSEHOLDS

Chart 3

Contribution to annual growth, pp



Sources: Rosstat, Bank of Russia calculations.

revision of the growth rate of gross value added in construction from 4.7% to 2.6%.

GDP growth in 2019 slowed down by 1.2 pp (Chart 2) on the back of two key factors. First, the weakening of external demand amid a slowdown in global economic growth led to a considerable contraction in exports of Russian goods and services (-2.1% compared with 2018). Export dynamics were also contained by the OPEC+ oil production caps. Second, the expansion of households' consumption activity slowed down somewhat as average annual inflation rose, largely on the back of the VAT increase at the beginning of the year. At the same time, the dynamics of GFCF and accumulation of inventories, due to the implementation of national projects and to good harvests, had a positive effect on output growth.

Production activity

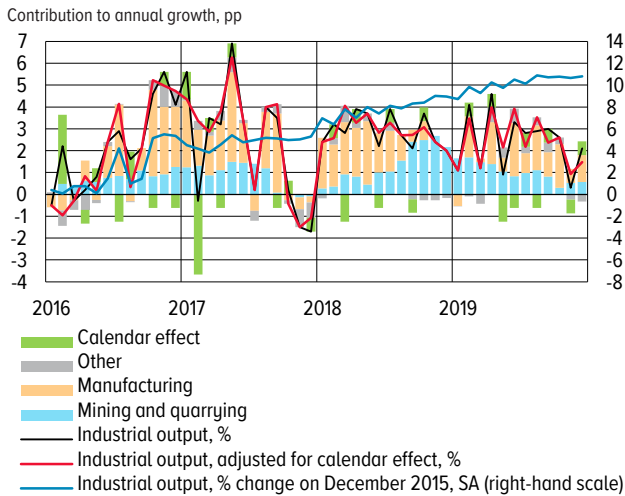
In December 2019, annual growth in industrial production totalled 2.1% (1.5%, adjusted for calendar effect, Table 1, Chart 4). Compared to the previous month (seasonally adjusted, SA), an increase in output was observed due to growth in manufacturing and mining and quarrying. In contrast, trends in electricity, gas and steam supply which formed amid abnormally warm weather contained growth in industrial production.

Raw material production. Annualised growth in mining and quarrying continued to accelerate in December; however, its pace remained considerably lower than average annual values in 2019 (Chart 5). Production growth (SA) slowed down compared with the previous month due to the negative output dynamics in the fuel and energy sector. Gas production resumed downward movement as exports to Europe contracted and domestic demand for heating fell. Oil production was supported by the decision to exclude natural gas liquids from the OPEC+ agreement from the beginning of 2020 despite the contraction of Russia's oil quota.

Intermediate goods output. In December 2019, the output of intermediate goods rose compared to the previous month (SA) (Chart 6). Oil refining volume remained high amid an ongoing trend towards an increase in refinery

INDUSTRIAL OUTPUT

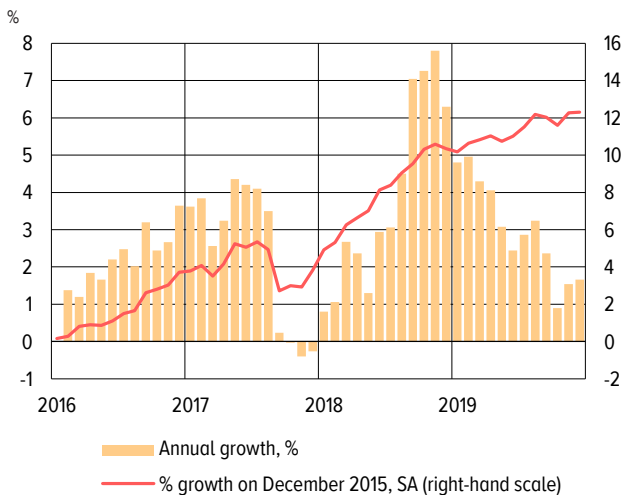
Chart 4



Sources: Rosstat, Bank of Russia calculations.

RAW MATERIALS

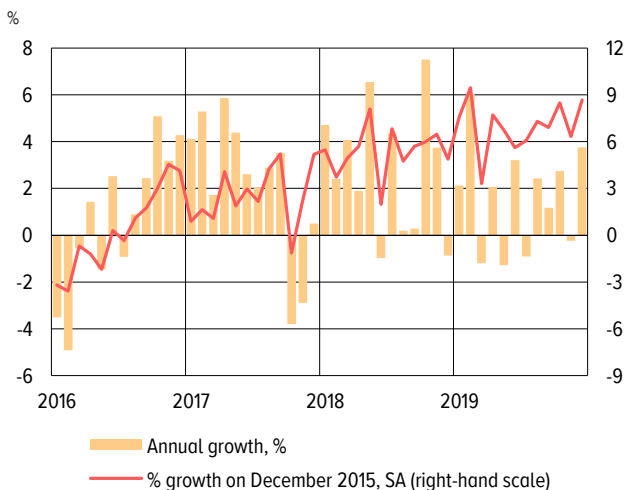
Chart 5



Sources: Rosstat, Bank of Russia calculations.

INTERMEDIATE GOODS

Chart 6



Sources: Rosstat, Bank of Russia calculations.

yield. The production of straight-run petrol was boosted by the expansion of chemical output. The production of plastics, lacquers and paints grew. Output in ferrous metallurgy recovered as maintenance works were completed in a number of factories.

Investment goods output. In December 2019, the production of investment goods recovered (SA) (Chart 7) in both engineering products and construction materials. In particular, there was an expansion in the production of aircraft and passenger coaches (on the back of the re-equipment of RZhD). In contrast, the production of motor vehicles continued on a downward trend due to slack domestic demand.

The production of construction materials showed improved output dynamics with the most considerable upturn registered in metal work. Mineral construction materials only showed improvement in certain sectors (glass and glassware, cement and bricks). The production of most decoration materials continued to fall.

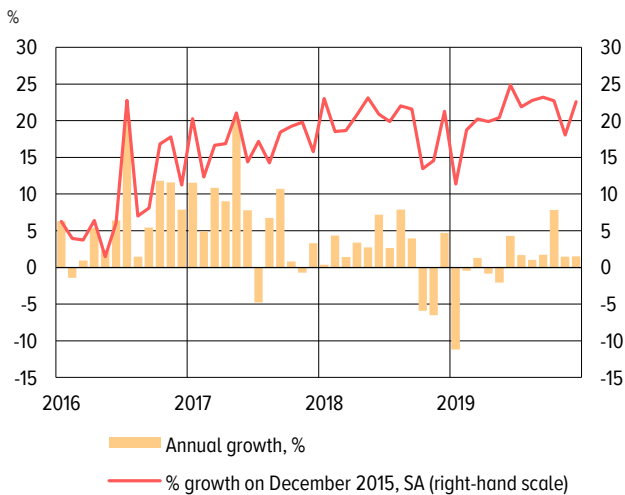
Consumer goods output. In December, consumer goods production continued on the upward trend seen during the second half of 2019 (SA) (Chart 8). Growth in food production accelerated, supporting output. The most tangible increase was registered in the production of sunflower oil, sugar and cheeses.

The output of non-food goods (SA) showed mixed trends in December and November. Despite the persistently slack production of durable goods, the output of light vehicles and some household appliances rose somewhat. Footwear production contracted in December. As in the previous months, growth was registered in production of clothes and medicines.

Business survey. December survey data were contradictory. The PMI Manufacturing index held below 50 points for the eighth straight month, pointing to a weakening of business activity in the Russian manufacturing sector (Chart 9). The research suggests, however, that the contraction in production volumes and new orders slowed down considerably. At the same time, other leading indicators failed to register a deterioration of business activity in manufacturing. Thus, Rosstat business sentiment indices rose, returning to the readings seen in September–October 2019. The mixed

INVESTMENT GOODS

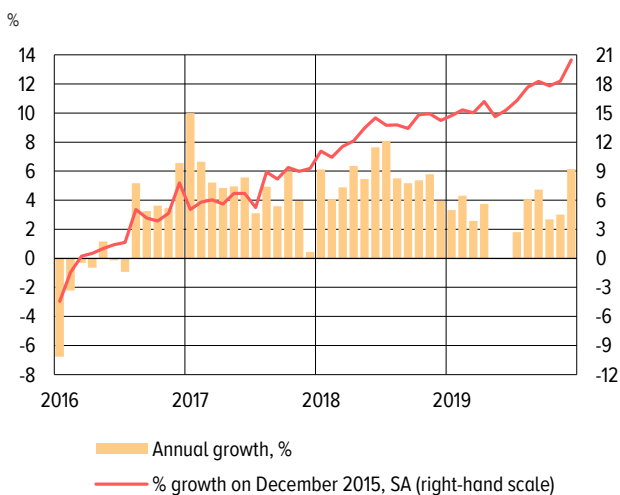
Chart 7



Sources: Rosstat, Bank of Russia calculations.

CONSUMER GOODS

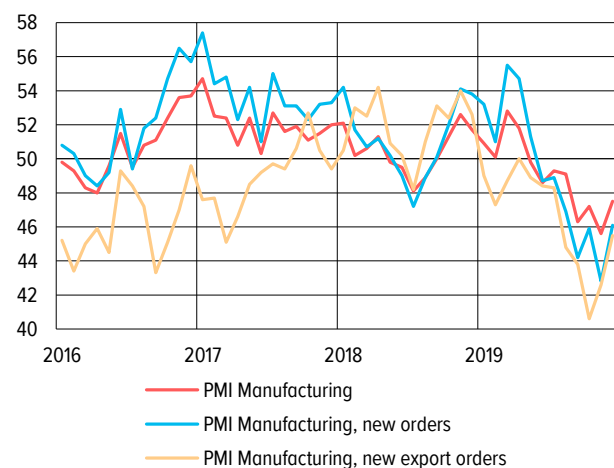
Chart 8



Sources: Rosstat, Bank of Russia calculations.

PMI: COMPANIES' ESTIMATES OF DEMAND FOR THEIR PRODUCTS (SA)

Chart 9



Source: IHS Markit.

signals as regards the state of the economy from the Rosstat and IHS Markit indices may be attributed to different samples of respondent companies.² Russia's cumulative PMI, which provides the most comprehensive view of GDP dynamics, dropped to 51.8 SA (in November, 52.9 SA) due to slower business activity growth in the services sector.

Transport. Freight turnover dropped by 1.7% year on year in December 2019 (in November, -1.5%) (Chart 10). A considerable negative contribution to the cumulative indicator came from the decline in railway freight turnover seen for the third month in a row. The contraction of railway freight turnover resulted from the decline in the exports of coal, ferrous metals and grain amid sluggish external demand. Pipeline transportation contracted, too. Freight turnover was supported by motor freight transportation. At the same time, the growth of motor freight turnover slowed down in December amid modest dynamics of retail sales.

Investment activity

The Bank of Russia estimates that annual growth of fixed capital investment stood at 0.8% in 2019 Q4, the same as a quarter earlier (Chart 11). Investment activity was supported by the appreciation of the ruble and by monetary easing in the second half of 2019.

In December 2019, investment activity indicators pointed to an ongoing upward trend in fixed capital investment. After the previous month's price drop, the production of investment goods and the railway transportation of construction materials increased year on year. Growth in investment imports from non-CIS countries accelerated. The implementation of national projects is expected to continue to exert a positive effect on investment activity this year. Given the low base effect of the last year, annual growth in fixed capital investment in 2020 Q1 may be within the range of 1.5–2.0%.

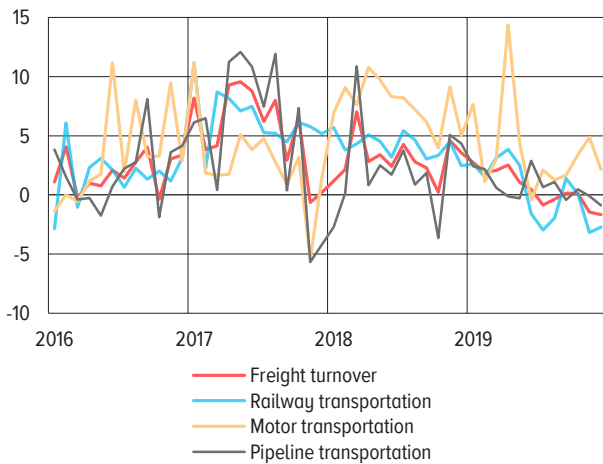
Consumer activity

² Rosstat's business confidence indices (BCI) are based on surveys of more than 2,000 manufacturing and mining companies. The PMI survey sample covers approximately 200 companies and, accordingly, does not represent the whole sample of manufacturing and mining companies.

FREIGHT TURNOVER

Chart 10

% change over the same period of the previous year

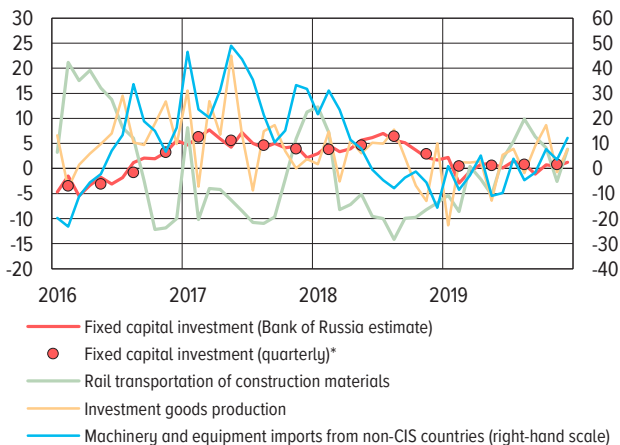


Source: Rosstat.

INVESTMENT ACTIVITY INDICATORS

Chart 11

% change over the same period of the previous year



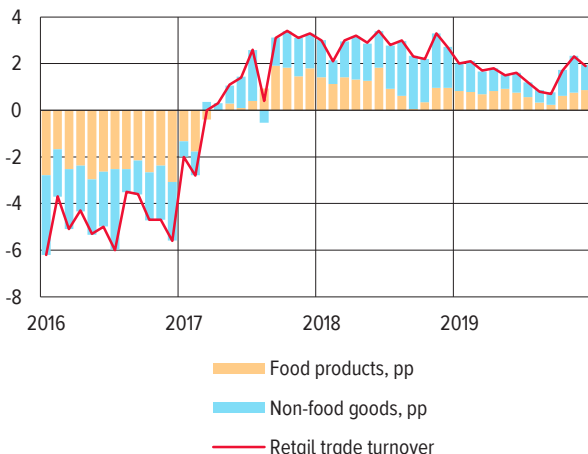
* 2019 Q4 – Bank of Russia estimate.

Sources: Rosstat, FCS, RZD, Bank of Russia calculations.

RETAIL TRADE TURNOVER

Chart 12

Contribution to annual growth, pp



Sources: Rosstat, Bank of Russia calculations.

After a surge in November (2.3%) associated, among others things, with more successful black Friday sales than last year, retail sales growth slowed down to 1.9% year on year in December 2019 (Chart 12). However, it remained high compared with the third quarter. This resulted from both inflation slowdown and improved consumer sentiment amid rising household income. Thus, in accordance with inFOM surveys, in December 2019 – January 2020, the consumer sentiment index remained high.³ In particular, respondents' positive attitude to large purchases helped expand consumer activity.

In 2019 Q4, the savings rate remained near the level of the previous quarter (Chart 13). Compared with the beginning of the year, it is higher: consumer lending slowed down whereas funds inflow to deposits increased.⁴

Labour market and household income

In December 2019, unemployment was at an all-time low. That said, the size of the labour force decreased (Chart 14). According to the IHS Markit survey, employment fell in manufacturing (PMI Manufacturing: 47.8 SA, Chart 15). The PMI Services index remained in positive territory (51.4 SA).

Annual growth of nominal wages slowed down to 6.3% in November 2019 (in October, 7.7%) (Chart 16). This was largely associated with a slowdown in the growth of civil servants' and military officers' wages, from 10.5% in October to 0.5% in November. Real wage growth totalled 2.7% in November (in October, 3.8%).

According to the Bank of Russia's estimates, real wages grew by 2.5–3.0% on average. In 2020 Q1, growth is expected to accelerate to 3.5–4.0% on the back of a further slowdown in inflation and the 5.4% wage indexation in the social and cultural sectors.⁵

³ Refer to the information and analytical commentary *Inflation Expectations and Consumer Sentiment* (No. 1 (37), January 2020).

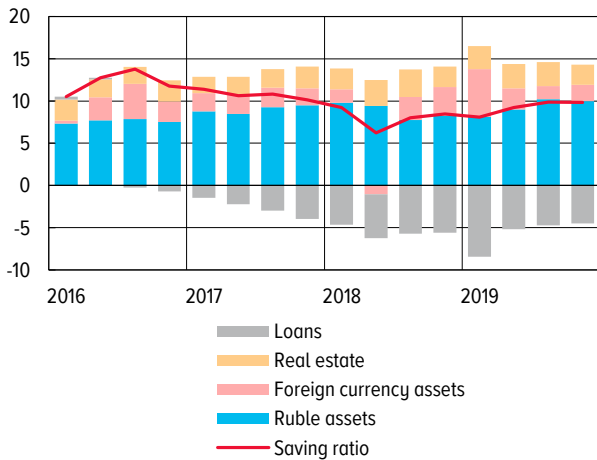
⁴ Refer to the information and analytical material *Banking Sector Developments in 2019*.

⁵ Refer to the *Guidelines for the Fiscal, Tax, and Customs and Tariff Policy for 2020 and the 2021–2022 Planning Period*.

SAVINGS RATE

Chart 13

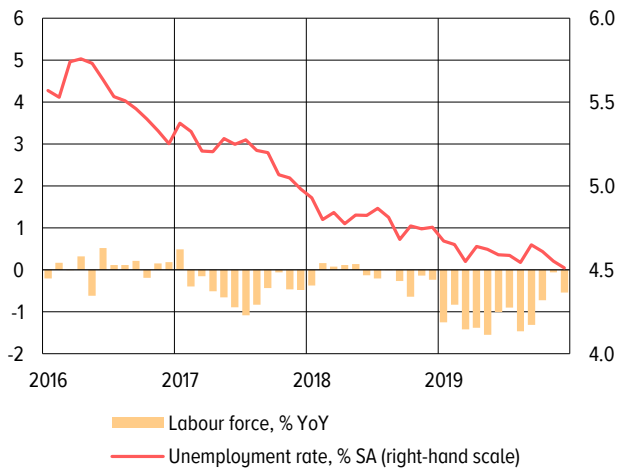
Percentage of household disposable income SA



Sources: Rosstat, Bank of Russia calculations.

UNEMPLOYMENT RATE AND LABOUR FORCE

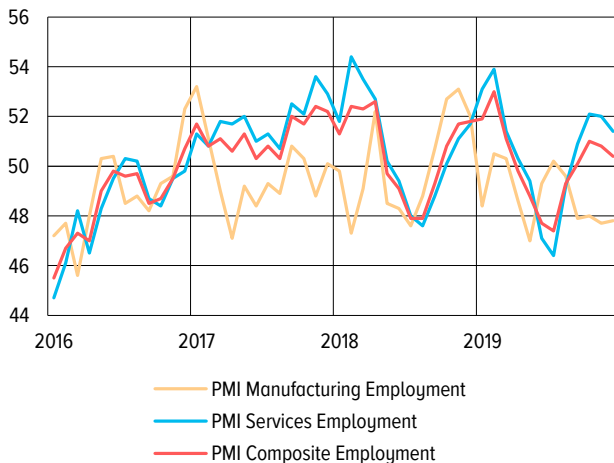
Chart 14



Sources: Rosstat, Bank of Russia calculations.

PMI IN EMPLOYMENT (SA)

Chart 15



Source: IHS Markit.

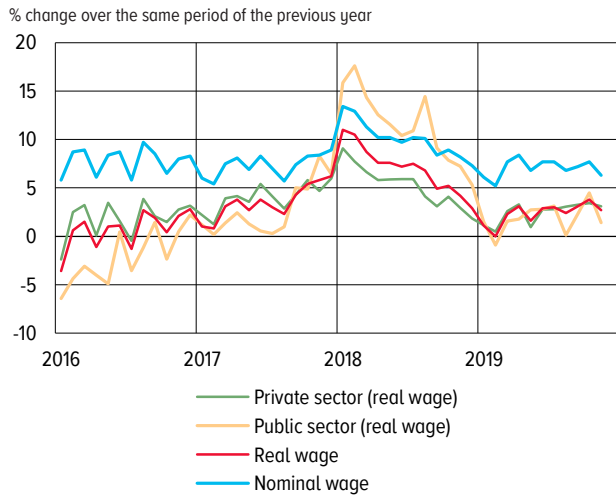
In 2019 Q4, growth in real disposable household income slowed down to 1.1% year on year (Chart 17). This resulted from the contraction of other income (including undisclosed earnings) and a slowdown in the growth of social benefits. That said, remuneration of employees continued to be the main contributor to income growth. Accelerated growth of real wage in the first quarter will boost the income and consumption of households.

Forecast

In accordance with the Bank of Russia's estimates, GDP will grow by 1.5–2.0% in 2020. It will be supported by an expansion in domestic demand on the back of the improved dynamics of real wages and accelerated budget spending, including as part of national projects. At the same time, the current OPEC+ oil production caps, uncertainty over the 2020 agreement parameters, and weakening external demand amid a likely slowdown of global economic growth, caused by the coronavirus and other external factors, may contain GDP growth.

WAGES

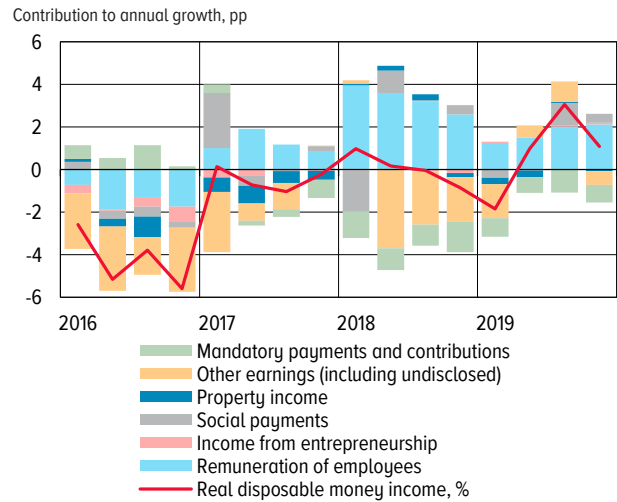
Chart 16



Sources: Rosstat, Bank of Russia calculations.

REAL HOUSEHOLD DISPOSABLE MONEY INCOME

Chart 17



Sources: Rosstat, Bank of Russia calculations.

Cut-off date – 03.02.2020.

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

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

This commentary was prepared by the Monetary Policy Department.

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