Economy: Facts, Assessments and Comments (October 2019)

Annual GDP growth in 2019 Q3 reached 1.7%, exceeding the Bank of Russia’s expectations (0.8–1.3%). The higher growth rates were probably driven by the dynamics of gross value added in wholesale and agriculture. Economic activity continued to go up in October 2019. Industrial output maintained its upward trend. Retail turnover growth substantially sped up, which could be explained by a rise in household income in 2019 Q3. Increased capital spending of the budget system contributed to quicker growth of investment activity. According to estimates, GDP growth in 2019 will come in near the upper bound of the Bank of Russia’s forecast range: 0.8–1.3%.

### Table 1

<table>
<thead>
<tr>
<th>CORE ECONOMIC INDICATORS</th>
<th>2017</th>
<th>2018</th>
<th>Q1 2019</th>
<th>Q2 2019</th>
<th>Q3 2019</th>
<th>September 2019</th>
<th>October 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Output of goods and services by key industry</td>
<td>2.4</td>
<td>3.1</td>
<td>0.9</td>
<td>1.7</td>
<td>2.6</td>
<td>2.9</td>
<td>…</td>
</tr>
<tr>
<td>Industrial output</td>
<td>2.1</td>
<td>2.9</td>
<td>2.1</td>
<td>3.0</td>
<td>2.9</td>
<td>3.0</td>
<td>2.6</td>
</tr>
<tr>
<td>Construction</td>
<td>-1.2</td>
<td>5.3</td>
<td>0.2</td>
<td>0.1</td>
<td>0.5</td>
<td>0.8</td>
<td>1.0</td>
</tr>
<tr>
<td>Freight turnover</td>
<td>5.6</td>
<td>2.9</td>
<td>2.2</td>
<td>1.3</td>
<td>-0.6</td>
<td>0.0</td>
<td>-0.2</td>
</tr>
<tr>
<td>Agricultural output</td>
<td>2.9</td>
<td>-0.2</td>
<td>1.1</td>
<td>1.2</td>
<td>5.1</td>
<td>5.6</td>
<td>5.2</td>
</tr>
<tr>
<td>Retail turnover</td>
<td>1.3</td>
<td>2.8</td>
<td>1.9</td>
<td>1.6</td>
<td>0.8</td>
<td>0.7</td>
<td>1.6</td>
</tr>
<tr>
<td>Paid services to households</td>
<td>0.2</td>
<td>1.4</td>
<td>-0.6</td>
<td>-1.0</td>
<td>-0.6</td>
<td>1.2</td>
<td>-0.5</td>
</tr>
<tr>
<td>Unemployment rate, seasonally adjusted* (% of labour force)</td>
<td>5.2</td>
<td>4.8</td>
<td>4.8/4.6</td>
<td>4.6/4.6</td>
<td>4.4/4.6</td>
<td>4.5/4.7</td>
<td>4.6/4.6</td>
</tr>
<tr>
<td>Nominal wage</td>
<td>6.7</td>
<td>11.6</td>
<td>6.5</td>
<td>7.7</td>
<td>7.4</td>
<td>7.2</td>
<td>…</td>
</tr>
<tr>
<td>Real wage</td>
<td>2.9</td>
<td>8.5</td>
<td>1.3</td>
<td>2.6</td>
<td>3.0</td>
<td>3.1</td>
<td>…</td>
</tr>
<tr>
<td>Real household disposable money income</td>
<td>-0.5</td>
<td>0.1</td>
<td>-2.5</td>
<td>-0.1</td>
<td>3.0</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>

*Bank of Russia assessment.

Source: Rosstat.

### GDP

Annual GDP growth in 2019 Q3 increased to 1.7% (vs 0.9% in 2019 Q2) (Chart 1), exceeding the Bank of Russia’s estimate of 0.8–1.3%. The Bank of Russia conjectured a possible acceleration of economic growth in its previous issue of the information and analytical commentary Economy. The increase in the growth rate could be driven by a higher than expected rise in gross value added in wholesale and agriculture.

The expansion of production amid slower growth of domestic demand could speed up inventory accumulation in 2019 Q3. According to assessments, goods and service exports showed slightly better dynamics after a considerable reduction in the previous quarter.
Yet, the slowdown in the global economy continues to hinder further recovery of exports.

Production activity

In October 2019, industrial output increased both year-over-year and as compared to the previous month (seasonally adjusted, SA) (Chart 2). In contrast to Q3 when output was primarily pushed up by mining and quarrying, in October manufacturing was the main driver of growth.

**Raw material output.** In October 2019, mining volumes (SA) continued to contract month-on-month (Chart 3). The downward trend in oil production persisted after its increase in July–August 2019 due to the effect of the OPEC+ oil production cuts. Gas output continued to shrink. This is explained by weak demand in Europe associated with record large gas volumes in gas holders.

The output of metallic ores and other minerals did not have a significant positive effect on the dynamics of the aggregate indicator in October.

**Intermediate goods output.** In October 2019, the seasonally adjusted output of intermediate goods continued to expand as compared to the previous month (Chart 4). The output of petroleum products considerably increased in October. This was partially driven by the completion of repairs at several oil refineries and higher demand in the petrochemical sector (the plastics output substantially rose in Q3). In turn, this boosted growth in related sectors (the output in the paint and coating industry). As in the previous months, the metallurgical industry demonstrated diverse dynamics: the output of ferrous metals contracted primarily due to a smaller output of pipes, while non-ferrous metal production continued to expand supported by external demand for Russian non-ferrous metals.

**Investment goods output.** The monthly growth rate (SA) of the investment goods output was close to zero in October 2019 (Chart 5). The output of both construction materials and engineering products remained near the September readings. The output of electronic and optical products continued to expand, yet it was counterbalanced by a substantial decline in
vehicle manufacturing caused by a contracted output of aircraft.

**Consumer goods output.** In October, the output (SA) of consumer goods maintained its upward trend observed in Q3 (Chart 6). This was primarily driven by fruit and vegetable processing amid a good harvest. The most significant growth was recorded in vegetable oil manufacturing, vegetable processing and flour milling. Contrastingly, the output of meat products adjusted downwards after its rise in Q3.

The output (SA) of non-food goods shrank in October. The output of durable goods (motor vehicles and household appliances) decreased, while the clothing and pharmaceutical industries maintained their upward trend amid expanded consumer demand in Q3.

**Business surveys.** In October 2019, the services PMI\(^2\) (SA) rose as in the previous month, reaching 55.8. Its growth was mainly driven by a larger volume of new orders and significantly influenced the dynamics of the composite PMI that went up to 53.3 (SA) in October. However, the manufacturing PMI grew only slightly to 47.2 (SA), remaining below 50 points (beginning from May 2019) (Chart 7). The findings of the study evidence that the deterioration of the market situation, as in the previous months, entailed a decrease in new orders, especially on the part of foreign clients (to its 10-year low). Export orders shrank due to the slowdown in the global economy. In this situation, businesses reviewed downwards their plans for finished-product output, hiring and raw material procurement, which may suggest a possible further decline in the economy.

The results of other surveys were more positive in October. Rosstat’s Business Confidence Indices remained almost unchanged (SA) in October at the level recorded in May–July 2019. Yet, the balance of the estimates of demand for manufacturing industry products slightly decreased in October. Companies noted that demand for their products in the domestic market, high taxes and economic uncertainties

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\(^2\) Purchasing Managers’ Index. For more details refer to www.markiteconomics.com/public.
remained the major factors containing output growth.

**Agriculture.** In October 2019, the annual growth rate of agricultural output in Russia was 5.2% (vs 5.6% in September). According to expert estimates, the total output of various crops, including grains, sunflower and sugar beet, is expected to increase. The output of meat products (primarily, pork products) also continues to grow, among other factors, owing to higher demand on the part of China.

**Transport.** In October 2019, rail transportation generally remained at the level recorded last October (-0.1%) (Chart 8). This was primarily due to a decrease in transportation of ferrous metals caused by a shrinkage of their output. Contrastingly, higher coal output pushed up its transportation, which supported growth in rail transportation. The dynamics of the aggregate indicator were also adversely affected by a reduction in water and air cargo transportation. However, motor and pipeline transportation expanded.

**Investment activity**

According to assessments, annual growth of fixed capital investment sped up to 0.8–0.9% in 2019 Q3 (vs 0.6% in Q2) (Chart 9). The growth rate of fixed capital investment came in close to the upper bound of the 0.3–0.8% forecast range published in the previous issue of the information and analytical commentary.

Accelerated growth of investment activity was partially driven by increased budget spending. In Q3, annual growth of budget spending in nominal terms sped up to 14.7% (in Q2 this indicator dropped by 6.5%).

Investment activity indicators showed diverse dynamics in October. On the one hand, contraction in investment imports continued and growth of construction material transportation declined. On the other hand, the output of investment goods maintained its upward trend. On the back of higher budget spending, investment activity is expected to rise in Q4. Estimated growth of gross fixed capital formation will equal 2.0–2.5%.
Consumer activity

In October 2019, annual growth in retail was 1.6%, which considerably exceeds the readings of the previous months (0.7–0.8%). First and foremost, this was driven by the low base effect – last year, this indicator showed its lowest growth rate since February 2018. Secondly, as assessed, consumer demand growth was pushed up by a rise in real household income observed in 2019 Q3. This caused an increase in consumption of non-food goods, while growth of food sales remained moderate (Chart 10).

InfOM’s consumer sentiment index continued to go up, reaching its maximum since June 2018. This was largely the result of improved assessments of the current financial standing over the past year and the country’s development prospects.

Labour market and household income

The unemployment rate (SA) dropped to 4.6% in October 2019, staying close to the previous months’ readings (Chart 11). According to assessments, the decrease in the unemployment rate was most significant in the services sector, which is evidenced by the PMI Service employment index (52.1, SA): for the first time since March, the surveyed businesses demonstrated improved sentiment regarding employment (Chart 12). However, manufacturing companies, as before, noted that the situation in this area was deteriorating (PMI Manufacturing equalled 48, SA).

After a temporary slowdown of wage growth in August 2019 caused by the dynamics of labour remuneration in the public sector, in September the annual growth rate of real wage returned to its averages recorded in the previous months and totalled 3.1% (Chart 13). Thus, the annual growth of real wages reached 3.0% in 2019 Q3, which is in line with the Bank of Russia’s forecast. Its estimated growth in 2019 will come in at 2.5–3.0%.

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3 See the information and analytical commentary Economy (No. 9 (45), September 2019).
4 See Monetary Policy Report (No. 3 (27), September 2019).
Forecast

The currently available macroeconomic statistics for October evidence a sustainable rise in production activity. In October, the annual growth rate of the leading output index was close to its average recorded in 2019 Q3 (Chart 14). According to the Federal Treasury’s data, budget spending accelerated in October 2019, which, among other things, was down to the implementation of the national projects. This will support aggregate demand. In these conditions, estimated GDP growth in 2019 will be close to the upper bound of the 0.8–1.3% forecast range.

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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