



Bank of Russia

The Central Bank of the Russian Federation



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Economy

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Economy: facts, assessments and comments (September 2018)

The Russian economy shows growth rates close to potential. However, economic activity indicators still remain heterogeneous. An increased oil production backed up by external factors made a major contribution to industrial output growth in September. Manufacturing sector showed mixed dynamics. Investment activity indicators and consumer demand continued to grow. As of year-end 2018, GDP growth will stand at 1.5–2%.

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

	2017	2018 Q2	August 2018	September 2018	2018 Q3
Output of goods and services by key industry	2.4	3.0	1.1	0.6	1.5
Industrial output	2.1	3.2	2.7	2.1	2.9
Agricultural output	2.5	1.9	-11.3	-6.0	-6.1
Construction	-1.4	0.9	-0.8	0.1	-0.4
Freight turnover	5.5	3.4	2.6	1.9	2.9
Retail trade turnover	1.3	2.9	2.8	2.2	2.6
Nominal wage	6.7	10.1	10.1	10.8	10.4
Real wage	2.9	7.6	6.8	7.2	7.2
Unemployment rate*/seasonally adjusted** (%)	5.2	4.8/4.8	4.6/4.8	4.5/4.7	4.6/4.8

* As % of labour force.

** Bank of Russia estimate.

Source: Rosstat.

The Russian economy shows growth rates close to potential. However, certain economic activity indicators remained heterogeneous both in 2018 Q2 and Q3, as is reflected in GDP disposal data. In general, the economic trends suggest that the current Bank of Russia forecast for 2018¹ will persist.

Production activity

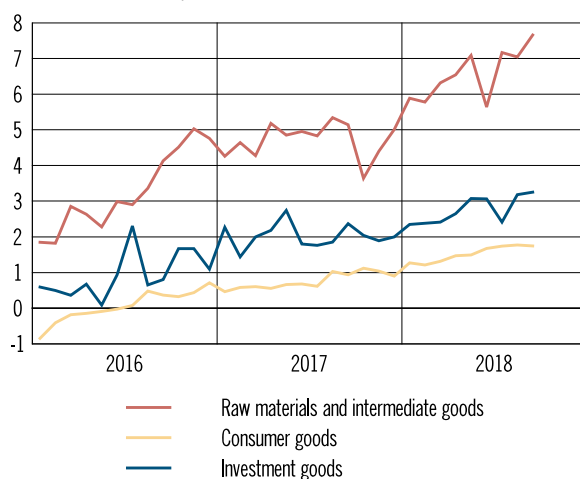
The slowing of annual growth in industrial output to 2.1% in September from 2.7% in August was associated with the calendar factor. The latter's negative contribution was 0.6 pp. On a month-on-month basis, industrial output growth adjusted for seasonal and calendar factors was close to its August reading: 0.4% vs. 0.5%. Yet, the production volume by sector showed mixed dynamics. On the one hand, a significant output growth backed up by external factors (Chart 1) was observed in manufacturing industries (of 1% month-on-month, seasonally adjusted). Against the backdrop of high oil prices, the weaker ruble, and expanded export options taking account of oil supply shortfall from

Iran and Venezuela, oil production rose noticeably. The increased oil production offset the reduced production of other energy commodities, i.e., coal and gas. Along with oil production growth, a rise in oil refining products, especially fuel oil and diesel fuel, was also observed. Moreover, growth was registered in the output of pulp-and-paper, rubber and plastic products.

Chart 1

Oil production made the main contribution to industrial output growth

Growth as % on 2013, seasonally adjusted



Sources: Rosstat, Bank of Russia calculations.

¹ Published in Monetary Policy Guidelines for 2019-2021.

The output of investment goods, including engineering products, continued to grow on a month-on-month basis seasonally adjusted. Building materials output was underpinned by the increased volume of construction works following the growth-free period of three months. However, it is still too early to speak about drastic changes in the construction industry.

On the other hand, a number of manufacturing industries continue to show unstable dynamics. The metallurgy sector continues to register a decline in output month-on-month seasonally adjusted. Manufacturing of non-food consumer products also decreased. In particular, the output of household appliances contracted which may be associated with the increased costs due to higher prices for imported components. Moderate growth in consumer demand will shore up the manufacture of non-food products as a whole.

Investment activity

Investment activity continued to rise in September just as in 2018 Q3 as a whole. This is seen from its major indicators: investment imports (Chart 2) increased along with growth in the volume of construction works and investment goods production.

It should be noted that private investments² (Chart 3) made the main contribution to investment growth from 2017 Q4. Given the dynamics of investment activity indicators, the slowing of the annual growth in gross fixed capital formation in 2018 Q2 to 1% year-on-year (with the expected growth of 2.5-3.5%³) can be regarded as temporary and triggered by local factors. Annual growth in gross fixed capital formation is estimated at 0.8-1.3% in Q3.

Consumer demand

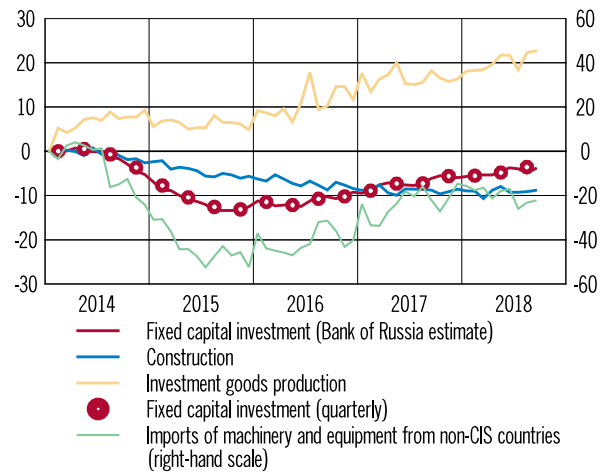
September saw continued moderate growth in consumer demand. Retail trade turnover growth stood at 0.3% month-on-month seasonally adjusted and slowed to 2.2% year-on-year from 2.8% in August largely due to the base effect. Non-food sales were on the rise, which was associated

² Rosstat published data on fixed capital investment by sector for the first two quarters. Data for the third quarter will be published on 3 December 2018.

³ Monetary Policy Report, No. 3 (23), September 2018.

Investment activity resumes growth in September

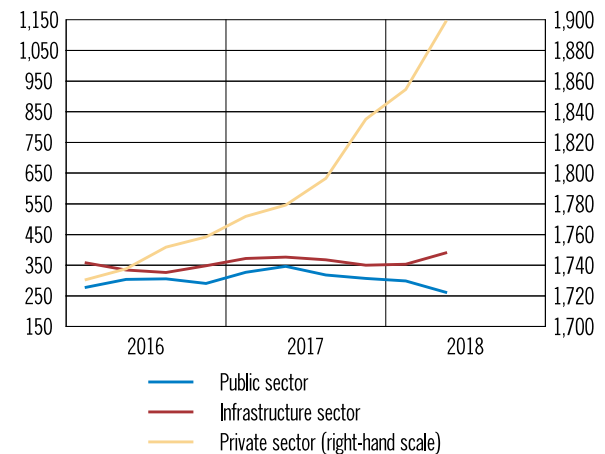
Growth as % on January 2014, seasonally adjusted



Sources: Rosstat, Bank of Russia calculations.

Private investments made the main contribution to investment growth in late 2017 - first half of 2018

Billions of rubles, in 2010 prices, seasonally adjusted



Sources: Rosstat, Bank of Russia calculations.

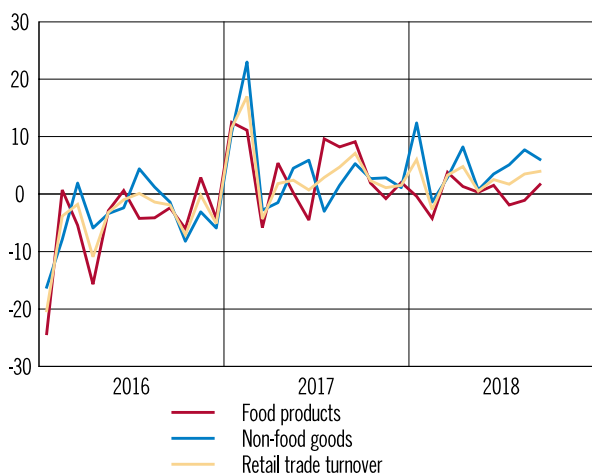
with elevated inflation expectations compared with the Q1-Q2 averages, given the ruble depreciation (Chart 4). Overall, consumption growth was underpinned by certain factors. First of all, real wages continued to grow. A major contribution to this growth in August was made by an increase in salaries of social sphere and culture professionals⁴ under the implementation of the May presidential orders. The actual wage dynamics in September (+0.9% MoM seasonally adjusted and +7.2% YoY) corresponded to the trends envisaged in the Bank

⁴ These include employees of healthcare and education organisations, as well as libraries, archives, museums, and other cultural objects.

Chart 4

Non-food sales remain the driver of trade growth

Annualised monthly growth, %, seasonally adjusted

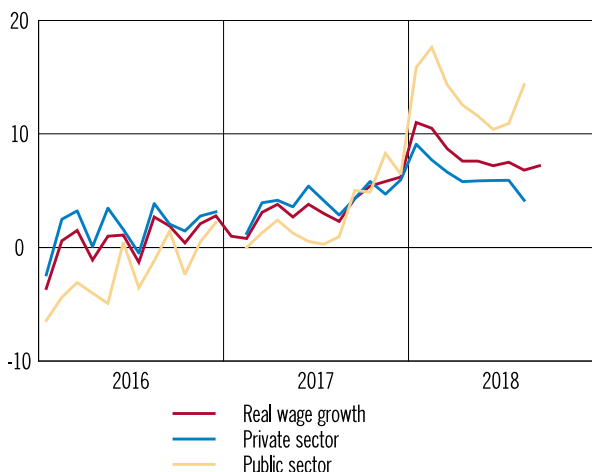


Sources: Rosstat, Bank of Russia calculations.

Chart 5

August saw wage indexation resume following the implementation of the May presidential orders

Growth as % on corresponding month of previous year



Sources: Rosstat, Bank of Russia calculations.

of Russia's baseline forecast⁵. Second, households made purchases through loans and savings which caused the savings ratio in August-September to go down significantly below its 2013-2014 levels. Meanwhile, real disposable household income dynamics continue to somewhat hamper consumer demand growth.

⁵ Published in Monetary Policy Guidelines for 2019-2021.

Cut-off date – 30 October 2018.

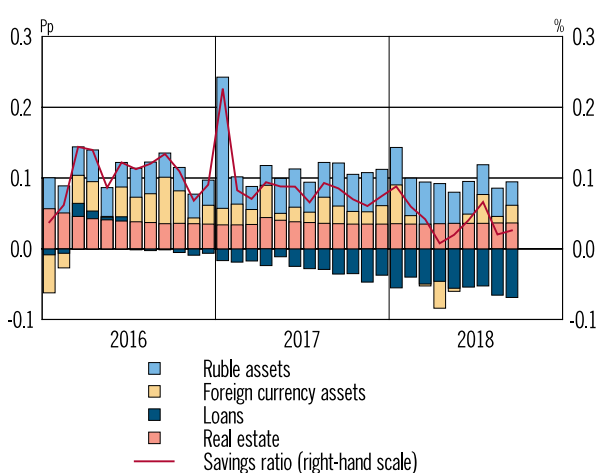
A soft copy of the information and analytical material is published on the Bank of Russia website (<http://www.cbr.ru/DKP/>).

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

Chart 6

The savings ratio is low

Contribution to savings ratio, seasonally adjusted



Sources: Rosstat, Bank of Russia calculations.

Overall, growth in final consumption expenditure of households is estimated at 2.0-2.5% in 2018 Q3. In 2018 Q2, the final consumption expenditure of households increased by 2.5%. This is below the Bank of Russia's estimate of 3.0-3.5% which took into account the actual dynamics of the retail trade turnover and the supposed dynamics of household expenditures abroad and non-resident expenditures inside the country. The difference between the actual data and the Bank of Russia's estimate may result from lesser growth in household expenditures abroad⁶ against the backdrop of the ruble depreciation in 2018 Q2 and from a more prominent contribution to the retail trade turnover of non-resident⁷ expenditures inside the country during the FIFA World Cup.

Forecast

In 2018, the Bank of Russia estimates GDP growth at 1.5-2%, including that of final consumption expenditure of households at 2.5-3% and gross fixed capital formation at 1.5-2%.

⁶ Accounted for in final consumption expenditure and not included in the calculation of other consumer activity indicator, i.e., the retail trade turnover.

⁷ Included in the retail trade turnover and not included in final consumption expenditure of households.