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%.

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.
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 investments (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%) 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 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 professionals 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

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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.

4 These include employees of healthcare and education organisations, as well as libraries, archives, museums, and other cultural objects.
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 abroad against the backdrop of the ruble depreciation in 2018 Q2 and from a more prominent contribution to the retail trade turnover of non-resident 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%.

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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.

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.