Bank of Russia

ECONOMY

No. 3 (51) • March 2020 года

Information and analytical commentary

7 May 2020

Economy: Facts, Assessments and Comments (March 2020)

March 2020 recorded a decline in business activity in the Russian economy caused by plummeting external demand amid the coronavirus pandemic. Industrial output shrank, primarily due to a reduction in mining production and in the output of investment goods. All indirect indicators of investment demand, except railway transportation of construction materials, demonstrated downward trends, evidencing a decrease in investment activity. Unemployment was up. At the same time, consumer activity remained high in March, including owing to an accelerated rise in sales of fast-moving consumer goods people were buying in advance of the self-isolation period. The growth of retail turnover sped up. Its annual growth rates hit their 2012 highs, supporting the annual performance of economic activity. Households financed elevated demand using their savings, among other things. According to the Bank of Russia's estimates, the annual GDP growth rate reached 1.5–2.0%. In the second quarter, annual GDP growth rates will become negative due to the material influence of the anti-pandemic restrictions on economic activity. In its forecast calculations, the Bank of Russia holds that the government will start to ease the restrictions as early as in June, which will pave the way for economic recovery in the third quarter. However, the annual economic growth rate will remain negative in the second half of the year, and by the end of 2020 GDP may shrink by 4–6%. These estimates largely depend on the duration of the restrictions and the pace of their easing.

CORE ECONOMIC INDICATORS
% YoY, unless indicated otherwise

Table 1

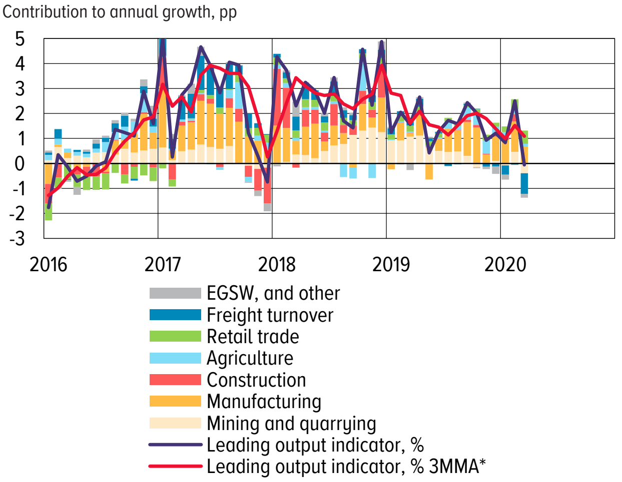
	2018	2019	2019 Q4	January 2020	February 2020	March 2020	2020 Q1
GDP	2.5	1.3	2.1	–	–	–	1.5–2.0*
Output of goods and services by key industry	3.1	2.0	2.4	2.0	4.0	...	...
Fixed capital investment	5.4	1.7	2.3	–	–	–	–
Industrial output	3.5	2.3	1.8	1.1	3.3	0.3	1.5
Construction	6.3	0.6	0.9	1.0	2.3	0.1	1.1
Freight turnover	2.7	0.6	-0.8	-3.9	-0.5	-7.1	-4.0
Agricultural output	-0.2	4.0	5.3	2.9	3.1	3.0	3.0
Retail turnover	2.8	1.9	2.1	2.6	4.6	5.6	4.3
Wholesale turnover	3.8	2.0	9.7	7.9	10.1	9.4	9.1
Paid services to households	1.4	-0.9	-1.4	2.1	0.9	-4.4	-0.4
Unemployment rate, seasonally adjusted* (% of labour force)	4.8	4.6	4.6 / 4.5	4.7 / 4.5	4.6 / 4.4	4.7 / 4.6	4.6 / 4.4
Nominal wages	11.6	7.5	8.2	9.1	8.1	...	...
Real wages	8.5	2.9	4.6	6.5	5.7	...	...
Real household disposable income	0.1	1.0	1.8	–	–	–	-0.2

** Bank of Russia estimate.*
Sources: Rosstat, Bank of Russia calculations.

Production activity

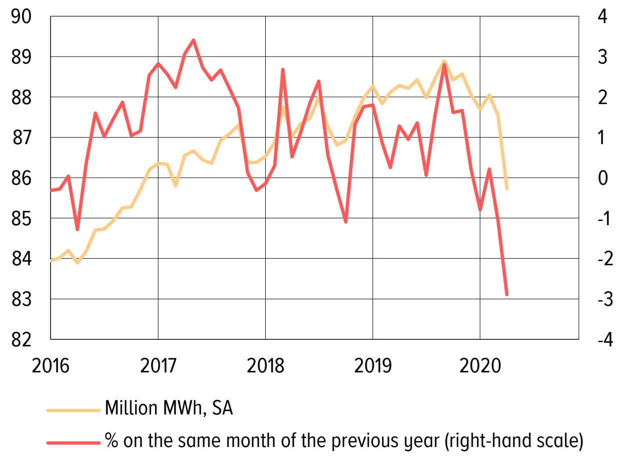
Leading indicators of economic activity. The leading output indicator decreased in March, evidencing a downturn in economic activity in annual terms (Chart 1). The major contributors to this reduction were mining (specifically, natural gas output) and freight turnover (largely due to shrinking coal and ferrous metal exports amid weak external demand; see section 'Transport'). The output was supported by retail trade. Its annual turnover significantly increased in March owing to elevated demand against the background of the coronavirus spread (see section 'Consumption and savings').

LEADING OUTPUT INDICATOR *Chart 1*



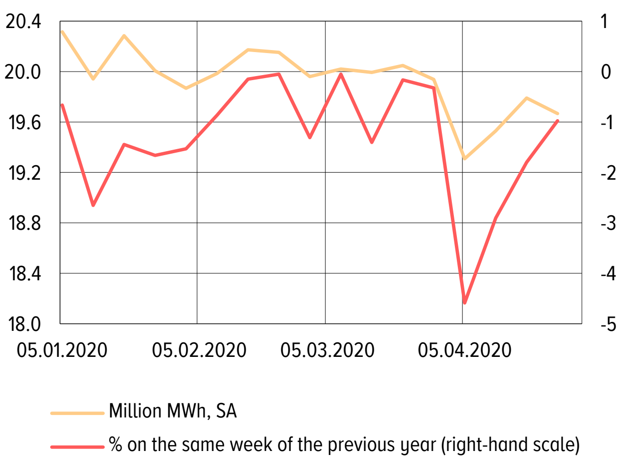
** Three-month moving average.*
Sources: Rosstat, Bank of Russia calculations.

ELECTRICITY CONSUMPTION, ADJUSTED FOR TEMPERATURE EFFECTS (OVER A MONTH)* *Chart 2*



** Consumption in April 2020, according to the Bank of Russia's estimate.*
Sources: JSC System Operator of the Unified Energy System, Bank of Russia calculations.

ELECTRICITY CONSUMPTION, ADJUSTED FOR TEMPERATURE EFFECTS (OVER A WEEK)* *Chart 3*



Sources: JSC System Operator of the Unified Energy System, Bank of Russia calculations.

A decrease in electric power consumption, which is an important indirect indicator of economic activity, also reflected a decline in production activity in individual industries. In March – early April, electric power consumption shrank both in annual and monthly terms, adjusted for seasonal and calendar effects (hereinafter, SA), as well for temperature effects. This resulted from lower demand for electricity amid declining economic activity, including due to the non-work period announced in Russia[1] (Chart 2). Beginning in the second fortnight of April, power consumption started to gradually go up, which may suggest that a range of entities are resuming their operations (Chart 3).

Industrial output. Industrial output contracted in March compared to the previous month (SA), returning to its June 2019 level (Chart 4). This was primarily driven by mining and a range of manufacturing sectors (largely, the output of investment goods). The output in the electricity, gas, steam and water (hereinafter, EGSW)[2] supply sector expanded, while remaining close to its December 2017 low.

In March, the annual growth of industrial output decreased to 0.3% (vs 3.3% in February). Adjusted for calendar effects, industrial output shrank by 0.3% (compared to a 1.3% increase in February). This reduction was caused by both manufacturing and EGSW. The growth rate of manufacturing industries remained positive, while substantially declining (Chart 5).

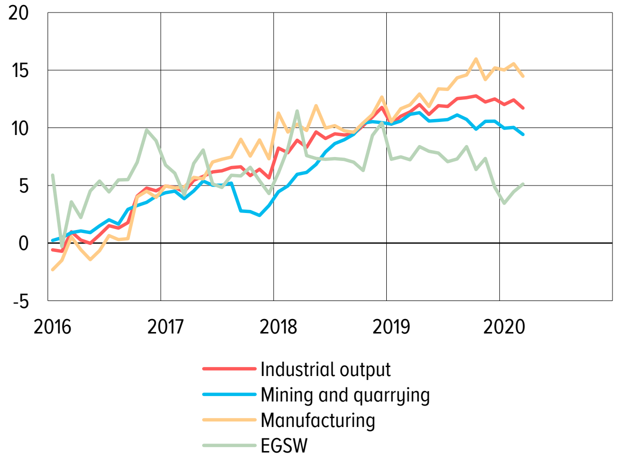
Mining. The output in mining and quarrying contracted in March compared to the previous month (SA). The output of natural gas declined the most due to the abnormally warm weather and large gas volumes in European gas holders (Chart 6). The output of oil stayed close to its 2019 average as long as the OPEC+ deal expiring in March remained effective. The output of coal expanded, which may be associated with a partial recovery of demand for coal in China.

[1] Executive Order of the Russian President No. 206, dated 25 March 2020, 'On Declaring Non-Work Days in the Russian Federation' and No. 239, dated 2 April 2020, 'On Measures to Ensure the Sanitary and Epidemiological Safety of the Population in Connection with the Spread of the Novel Coronavirus Infection (COVID-19)'.

[2] Hereinafter, EGSW imply economic activities 'Electricity, gas, steam and air conditioning supply' and 'Water supply, sewerage, waste management, and pollution controls'.

INDUSTRIAL OUTPUT *Chart 4*

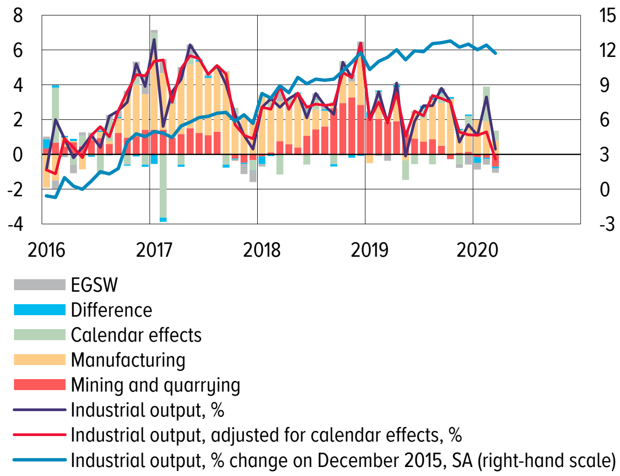
% growth on December 2015, SA



Sources: Rosstat, Bank of Russia calculations.

INDUSTRIAL OUTPUT *Chart 5*

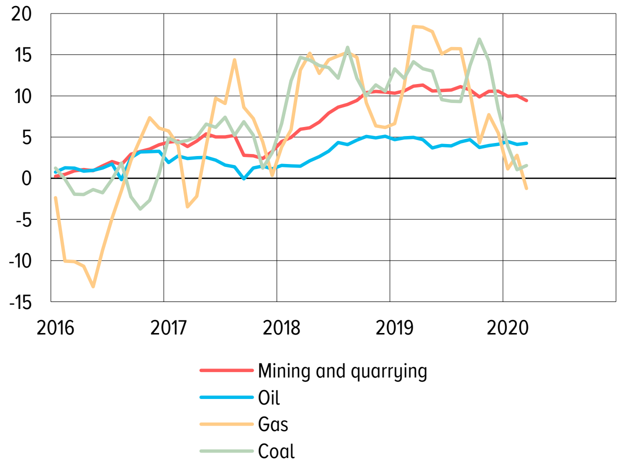
Contribution to annual growth, pp



Sources: Rosstat, Bank of Russia calculations.

MINING AND QUARRYING *Chart 6*

% growth on December 2015, SA



Sources: Rosstat, Bank of Russia calculations.

In March, the year-over-year output in mining and quarrying adjusted for calendar effects decreased by 1.8% (vs 0.5% in February).[3] Natural gas production continued to be the major contributor to the reduction in the overall output, which is partially explained by the last year's high basis.

Manufacturing. In March, the output in manufacturing decreased, returning to its 2019 Q3 average (SA). This reduction largely resulted from the declining output of investment goods, which in turn was caused by disruptions in logistics chains due to the quarantine in a range of countries and revisions of companies' investment plans. The output was supported by the production of intermediate goods amid a favourable environment in certain markets.[4] The output of intermediate and consumer goods hit its five-year high (Chart 8).

In March, the year-over-year growth of the output in manufacturing slowed down by 2.4 pp, to 2.6% (vs 5.0% in February). The output was significantly supported by calendar effects: adjusted for calendar effects, manufacturing expanded by as little as 1.5% in March (vs 3.8% in February) (Chart 9).

Intermediate goods. The output of intermediate goods continued to expand (SA) in March. The growth of the output of petroleum products accelerated, driven by main fuel types (gasoline and diesel) and a number of other types of petroleum products. This was promoted by rising demand on the part of chemical companies. A reduction in the oil refining cost against the background of plummeting oil prices put downward pressure on prices for petroleum products. Chemical production was also supported by the output of fertilisers amid expanding domestic demand.[5] Non-ferrous metal production (e.g. the output of steel and pipes) decreased due to a downturn in domestic demand induced by economic

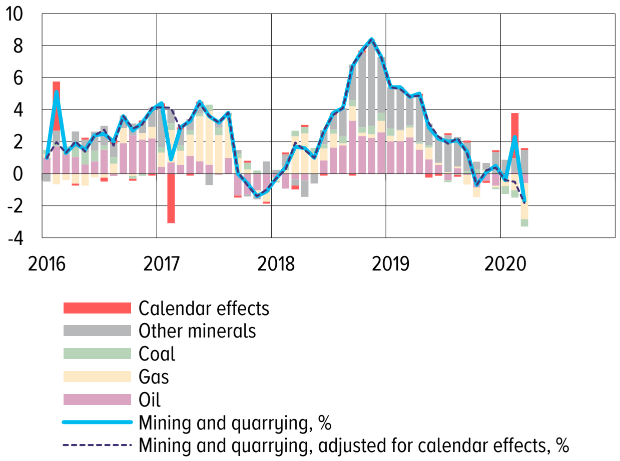
[3] *The growth of mining production not adjusted for calendar effects totalled 2.3% in February (February 2020 is one calendar day longer than February 2019).*

[4] *See section 'Intermediate goods'.*

[5] *The Russian Association of Fertilizer Producers (RAPU) reports record-high demand and a substantial increase in supplies of mineral fertilisers in the domestic market. In 2020 Q1, shipments expanded by 38.2% year-over-year.*

MINING AND QUARRYING *Chart 7*

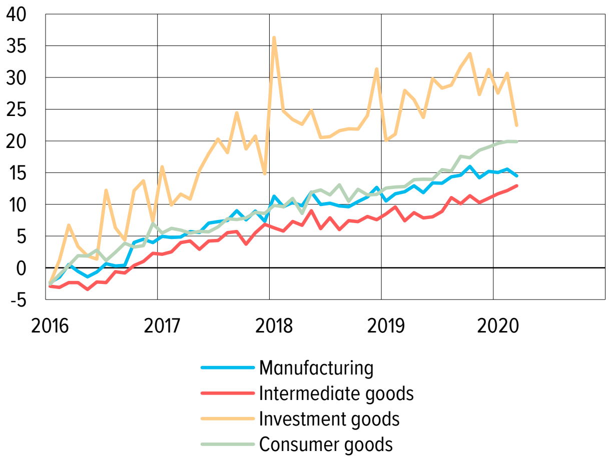
Contribution to annual growth, pp



Sources: Rosstat, Bank of Russia calculations.

MANUFACTURING *Chart 8*

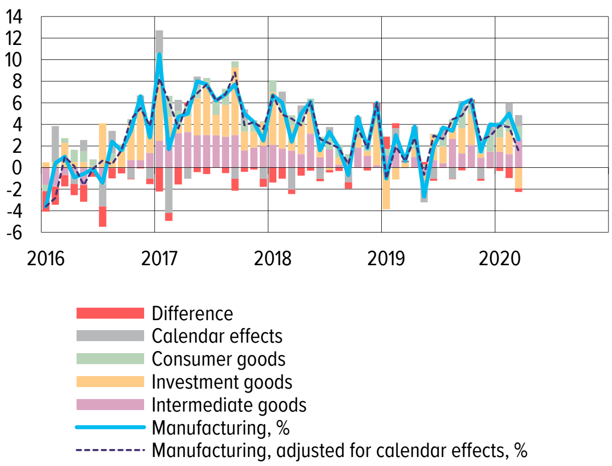
% growth on December 2015, SA



Sources: Rosstat, Bank of Russia calculations.

MANUFACTURING *Chart 9*

Contribution to annual growth, pp



Sources: Rosstat, Bank of Russia calculations.

activity restrictions implemented by a range of countries to combat the pandemic (Annex; Charts 1 and 2).

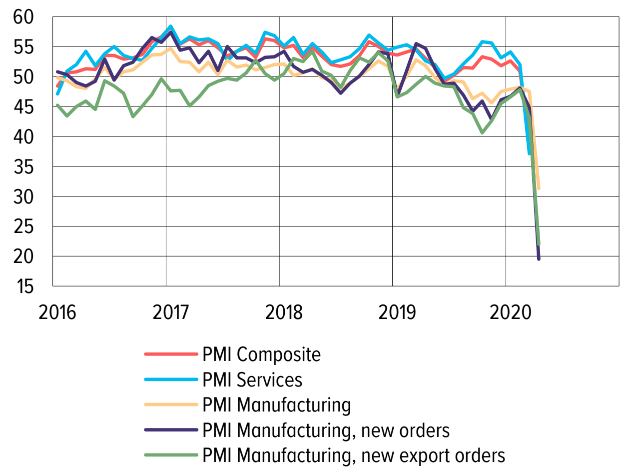
Investment goods. March recorded a considerable reduction in the output of investment goods (SA). This resulted from a decrease in the output of engineering products, primarily electronics and vehicles. A major drag was the decreasing affordability of imported components resulting from the weakening of the ruble in March. Conversely, the output of construction materials continued to expand, pushed by a faster growth of construction volumes since the beginning of 2020, including amid the accelerated implementation of national projects and the abnormally warm weather facilitating construction works (Annex; Charts 3 and 4).

Consumer goods. In March, the output of consumer goods stayed close to the previous month's level (SA). It was supported by elevated demand for individual fast-moving consumer goods and food products against the background of households' preparations for the self-isolation period. Specifically, the output of meat products, canned and other non-perishable products demonstrated a material rise.

The output of non-food goods contracted in March, primarily due to individual durable products. The output of cars continued to shrink, including because of the deficit of imported components. Contrastingly, elevated consumer demand pushed an increase in the output of certain types of household appliances. In addition, the output of medical wear substantially expanded, boosted by elevated demand for it amid the spread of the coronavirus in Russia (Annex; Charts 5 and 6).

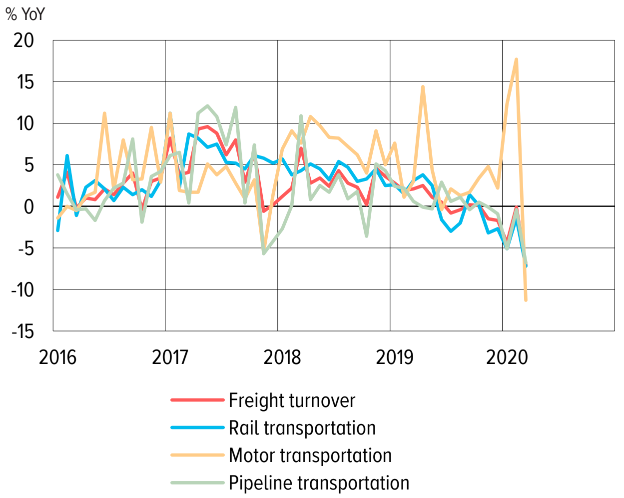
Electricity, gas, steam and water. The output of electric power decreased in March, both in annual and monthly terms (SA). Its level dropped below its 2019 average. This reduction was associated with calendar effects (the weather remained warm in March) and with a decline in power consumption (see section 'Leading indicators of economic activity'). Conversely, water supply continued to expand (month-over-month, SA). This supported the growth of overall output in the industry (Chart 4). The output of EGSW continued to decline year-

PMI (SA) *Chart 10*



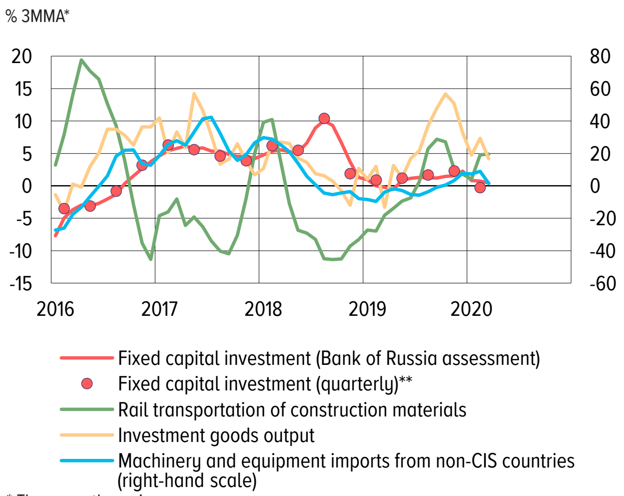
Source: IHS Markit.

FREIGHT TURNOVER *Chart 11*



Source: Rosstat.

INVESTMENT ACTIVITY INDICATORS *Chart 12*



** Three-month moving average.*
** 2020 Q1 – Bank of Russia's assessment.*
Sources: Rosstat, Federal Customs Service, Russian Railways, Bank of Russia calculations.

over-year. The contribution of this sector to the reduction in the annual growth of industrial output approximated 0.25 percentage point (Chart 5).

Business surveys. In April, Russia's manufacturing PMI declined to 31.3 SA (vs 47.5 in March), which is its record low (Chart 10). This largely resulted from a decrease in new orders, especially domestic ones. Shutdowns of enterprises due to the self-isolation regime entailed a material decline in the outputs of surveyed companies. Businesses' expectations regarding their output in the next 12 months decreased to their record lows. Rosstat's Business Confidence Indices also went down in April, and most notably in manufacturing.

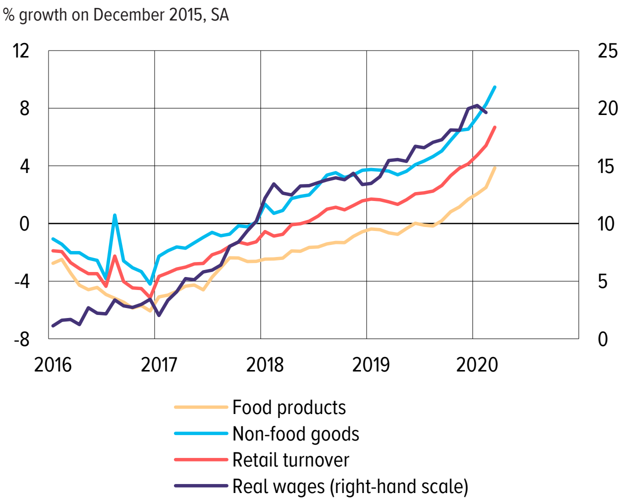
Transport. In March, rail transportation shrank by 7.2% in annual terms, continuing its downward trend for the sixth consecutive month (Chart 11). The major contributor to this reduction was the downturn in coal and ferrous metal exports amid declining external demand. Contrastingly, transportation of construction materials continued to expand. The restrictions implemented to combat the coronavirus spread entailed a considerable decrease in motor freight transportation. Shrinking gas exports to non-CIS countries contributed to the decline in pipeline transportation.

Agriculture. In March, the annual growth of agricultural output reached 3.0% (vs 3.1% in February). Livestock breeding, specifically the output of meat and milk, remained the major contributor to this increase. The output of greenhouse vegetables continues to demonstrate high growth rates. Expectations of a good harvest will support an expansion of agricultural output in April, which will continue to limit food inflation.

Investment activity

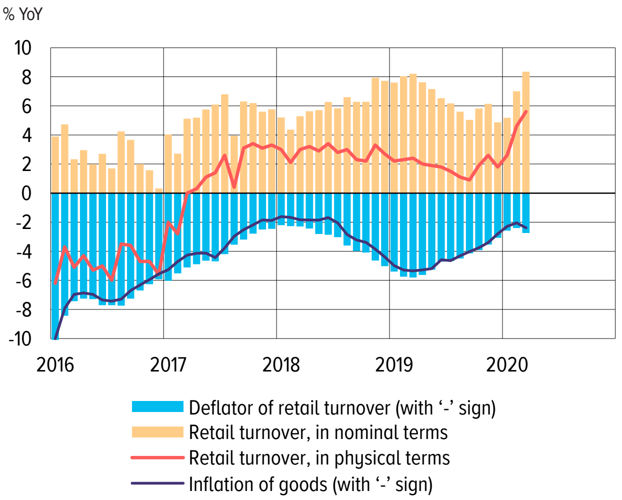
March saw a decline in investment activity compared to the previous month (SA). All indirect indicators of investment demand, except railway transportation of construction materials, demonstrated downward trends (Chart 12). Imports of engineering products from non-CIS countries contracted to the September 2019 level, affected by the depreciation of the

RETAIL TURNOVER AND REAL WAGES *Chart 13*



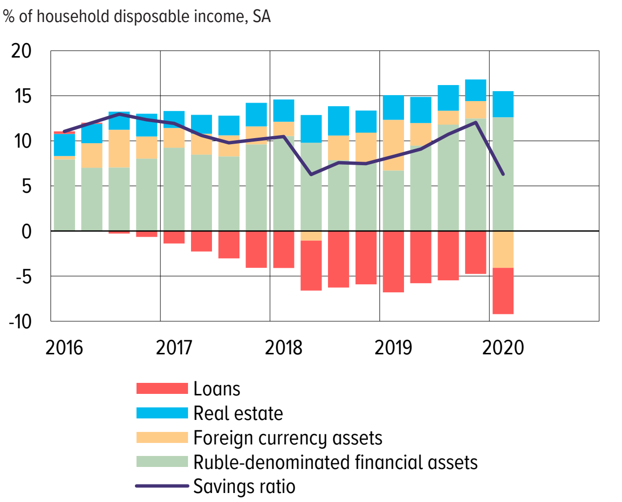
Source: Rosstat, Bank of Russia calculations.

RETAIL TURNOVER *Chart 14*



Source: Rosstat, Bank of Russia calculations.

SAVINGS RATIO *Chart 15*



Sources: Rosstat, PJSC Moscow Exchange, Bank of Russia, Bank of Russia calculations.

ruble and the anti-coronavirus restrictions implemented in many economies. Due to the shortage of imported components and disruptions in global logistics chains, the output of domestic investment goods also decreased.

According to the Bank of Russia's assessment, fixed capital investment declined in 2020 Q1, despite more extensive federal budget spending.[6] The weakening of the ruble, the spread of the coronavirus pandemic, and restrictions being implemented by governments worldwide, including in Russia, are expected to entail a further reduction of investment activity in the next months.

Consumption and savings

The growth rate of retail turnover sped up in March against the previous month (1.2%, SA; Chart 13), driven by two key factors. Firstly, demand for fast-moving consumer goods increased amid the spread of the coronavirus. According to Nielsen, sales of non-perishable food (rice, buckwheat and pasta) and personal care products increased most notably. Secondly, the weakening of the ruble and the related rise in inflation expectations contributed to the faster growth of sales of household appliances and cars in March.

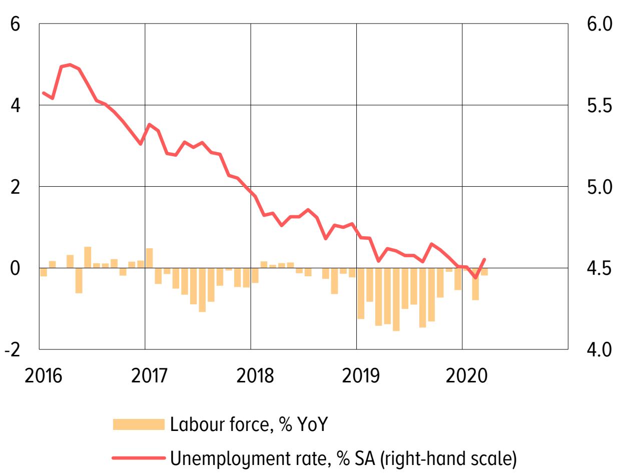
In March, the annual growth of retail turnover equalled 5.6%, which is its 2012 high (vs 4.6% in February;[7] Chart 14). As real disposable income stagnated (see section 'Labour market and household income'), the expansion of consumption was also financed through a decrease in savings. The savings ratio in 2020 Q1 declined to 6.3% SA (vs 12% in 2019 Q4; Chart 15). The major contributor to this reduction was the outflow of households' foreign currency deposits explained by their decreasing attractiveness. Beginning from early 2020, banks have been reducing their range of foreign currency deposit products and consecutively cutting interest rates thereon.[8]

[6] *The annual growth of federal budget spending totalled 53.3% in 2020 Q1.*

[7] *Rosstat has revised retail turnover movements for 2019–early 2020.*

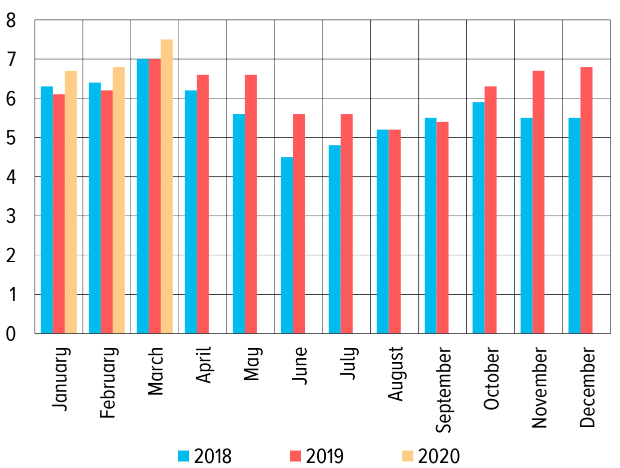
[8] *Refer to the Monetary Policy Report (No. 2 (30), May 2020).*

UNEMPLOYMENT RATE AND LABOUR FORCE *Chart 16*



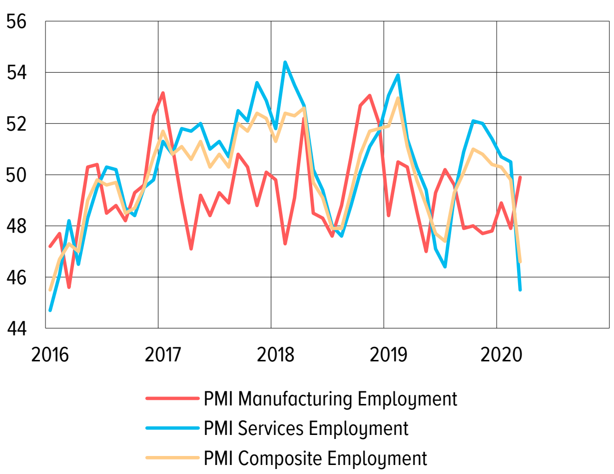
Source: Rosstat, Bank of Russia calculations.

HH.INDEX *Chart 17*



Source: hh.ru.

PMI IN EMPLOYMENT (SA) *Chart 18*



Source: IHS Markit.

Consumer sentiment declined. According to the Bank of Russia-commissioned telephone survey carried out by InFOM at the beginning of April, households' financial standing deteriorated. One-half of respondents reported an increase in expenses over the past months, which was associated with both price growth and higher expenses in advance of the self-isolation period: over one-fourth of Russians were buying in fast-moving consumer goods.

Labour market and household income

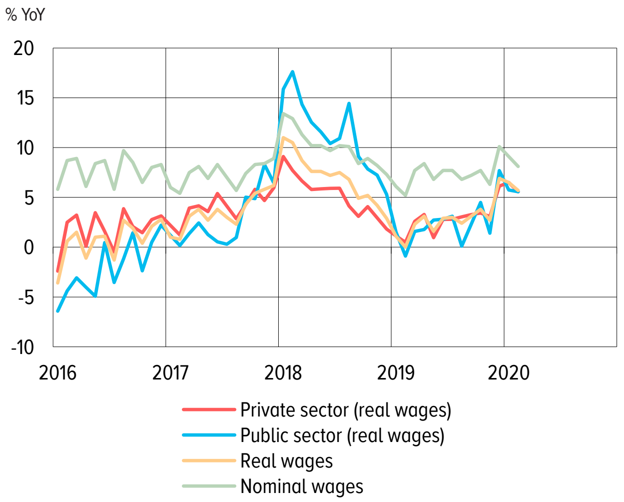
March 2020 recorded a rise in unemployment by 4.6% SA (vs 4.4% SA in February; Chart 16). Pressure in the labour market increased, which was evidenced by hh.index[9] (Chart 17) exceeding its previous years' readings. Unemployment was up due to declining demand for labour force. According to the IHS Markit PMI survey, the employment rate considerably decreased in March, especially in the services sector (PMI Services Employment: 45.5 SA – the 2016 low; Chart 18), which was associated with the downturn in economic activity because of the coronavirus spread and the weakening of the ruble.

A range of studies demonstrate a rise in part-time employment. The study by the Center for Strategic Research on business activity amid the spread of the coronavirus and anti-pandemic measures shows that an increase in concealed unemployment (transfer of employees to part-time work, unpaid vacations, etc.) has become one of the forms of adjustment to the suspension of operations for the period of non-work days in Russia. The April survey by InFOM confirms that a part of employees were forced on leave (whether paid or unpaid). Moreover, a number of employers failed to pay salaries in due time. According to InFOM's survey, respondents complained about decreasing wages and other payments, as well as non-payment of wages.

The Bank of Russia estimates that the labour market may be adjusting to declining economic activity largely through a wage reduction and

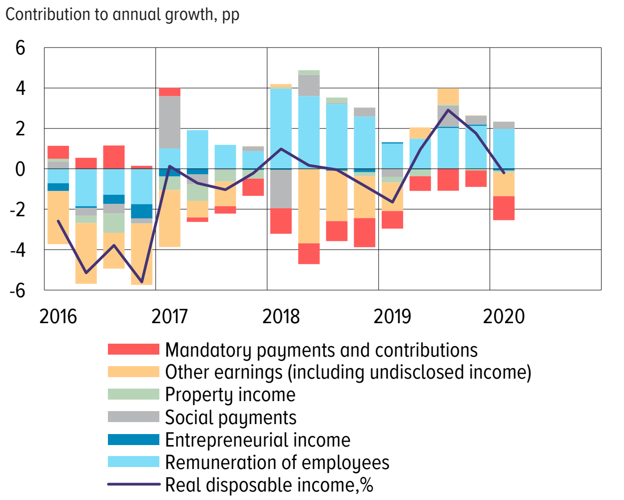
[9] *Ratio of published CVs to vacancies.*

WAGES *Chart 19*



Sources: Rosstat, Bank of Russia calculations.

REAL HOUSEHOLD DISPOSABLE INCOME *Chart 20*



Sources: Rosstat, Bank of Russia calculations.

a rise in part-time employment, which will limit the growth of unemployment.

In February 2020, the annual growth of nominal wages slowed down to 8.1% (vs 9.1% in January; Chart 19) due to a slower rise in wages in trade, manufacturing, transportation, and storage. The increase in real wages in real terms slackened to 5.7% (vs 6.5% in January). According to the Bank of Russia's assessment, the annual growth of real wages totalled 5.5–6.0% in 2020 Q1.

Although supported by the rise in labour income, real disposable income in Q1 slightly shrank in annual terms (-0.2%; Chart 20). This reduction was probably caused by a decrease in other income (including undisclosed earnings) and a significant rise in interest and other mandatory payments.

Forecast

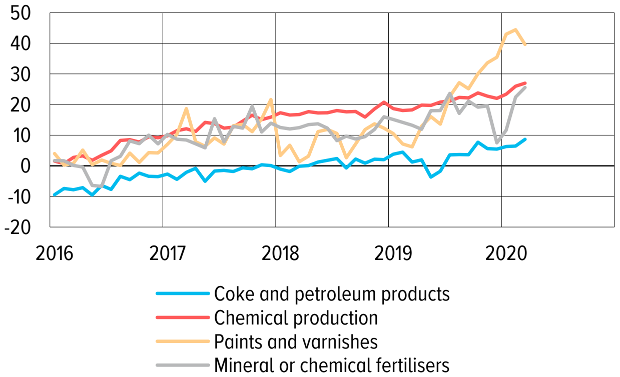
In January – February when real wages were growing and budget spending became more intense, domestic demand expanded, including owing to increasing imports. The annual growth of output across most industries was promoted by the leap-year effect (the additional calendar day in February).

However, the economic situation materially deteriorated in March: the termination of the OPEC+ agreement and anti-coronavirus restrictions being implemented by the governments of foreign countries and Russia entailed a temporary slump in economic activity. This is confirmed by a range of indirect indicators (see section 'Leading indicators of economic activity'). In the second quarter, annual GDP growth rates will become negative due to the material influence of the anti-pandemic restrictions on economic activity. In its forecast calculations, the Bank of Russia holds that the government will start to ease the restrictions as early as in June, which will pave the way for economic recovery in the third quarter. However, the annual economic growth rate will remain negative in the second half of the year, and by the end of 2020 GDP may shrink by 4–6%. These estimates largely depend on the duration of the restrictions and the pace of their easing.

Annex

PETROLEUM PRODUCTS, CHEMICAL SUBSTANCES AND PRODUCTS *Chart 1*

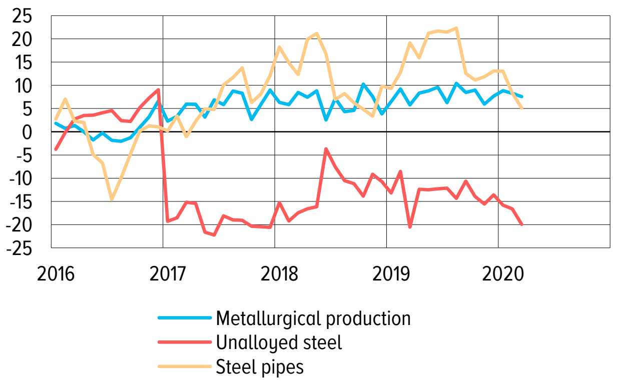
% growth on December 2015, SA



Sources: Rosstat, Bank of Russia calculations.

METALLURGICAL PRODUCTION *Chart 2*

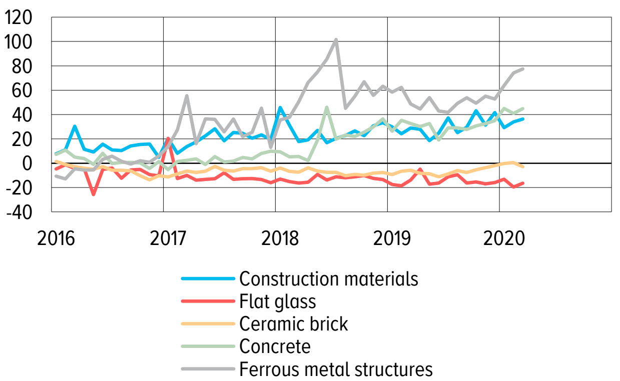
% growth on December 2015, SA



Sources: Rosstat, Bank of Russia calculations.

CONSTRUCTION MATERIALS *Chart 3*

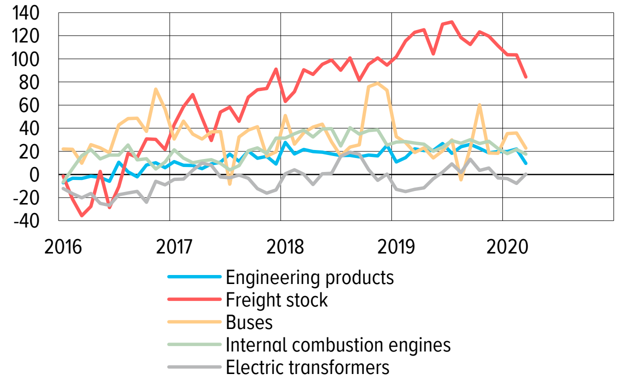
% growth on December 2015, SA



Sources: Rosstat, Bank of Russia calculations.

ENGINEERING PRODUCTS *Chart 4*

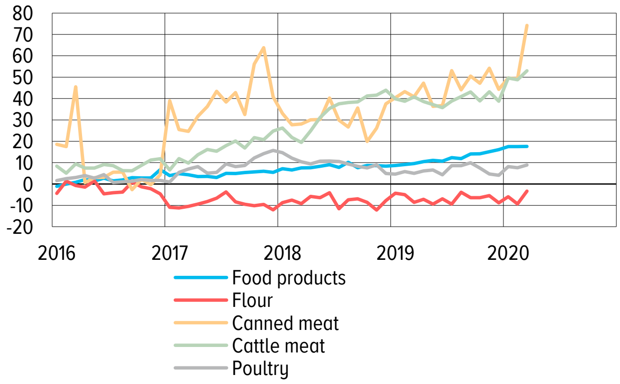
% growth on December 2015, SA



Sources: Rosstat, Bank of Russia calculations.

FOOD PRODUCTS *Chart 5*

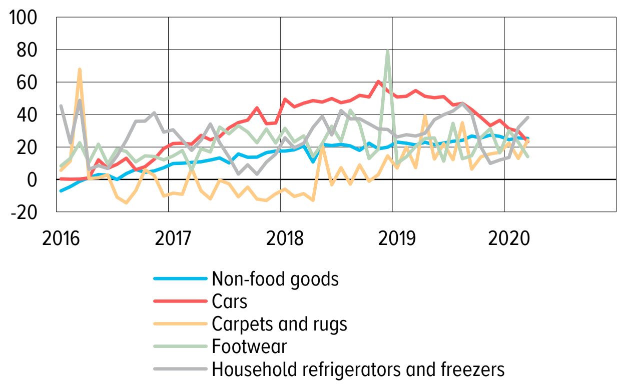
% growth on December 2015, SA



Sources: Rosstat, Bank of Russia calculations.

NON-FOOD GOODS *Chart 6*

% growth on December 2015, SA



Sources: Rosstat, Bank of Russia calculations.

Data cut-off date – 30.04.2020.

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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