



Bank of Russia



# ECONOMY

No. 9 (57) • September 2020

Information and analytical commentary

28 October 2020

## Economy: Facts, Assessments and Comments (September 2020)

In September, the recovery of business activity in the Russian economy came to a halt amid the stabilisation of consumer demand, as well as declining production activity, mainly in the manufacturing segment. The investment demand recovery continued; however, a marked decrease in the output of investment goods in September may imply a contraction in investment activity in the coming months. Due to the worsening epidemiological situation and the exhaustion of the fiscal impulse effect, the recovery of consumer activity may considerably slow down by the end of the year. According to Bank of Russia estimates, GDP will reduce by 4.0–5.0% in 2020.

CORE ECONOMIC INDICATORS  
(growth, % YoY, unless indicated otherwise)

Table 1

	2019	January-September 2019	January-September 2020	2019 Q4	2020 Q1	2020 Q2	2020 Q3	July 2020	August 2020	September 2020
<b>Aggregate output and leading indicators</b>										
GDP <sup>1</sup>	1.3	0.8	-3.4	2.1	1.6	-8.0	–	-4.4	-3.7	-3.3
Key industry index, <sup>2</sup> without wholesale trade <sup>3</sup>	2.4	2.5	-3.1	2.1	2.1	-6.9	-4.0	-4.8	-3.5	-3.6
Key industry index, including wholesale trade <sup>3,4</sup>	2.2	2.0	-2.8 <sup>4</sup>	3.0	2.6	-7.1	-3.4 <sup>4</sup>	-3.9	-3.3	-2.9 <sup>4</sup>
<b>Production activity</b>										
Industrial output	3.3	3.5	-2.9	2.8	2.9	-6.5	-5.0	-5.9	-4.2	-5.0
Agricultural output	4.3	3.8	3.3	5.6	3.0	3.1	2.7	4.2	4.1	1.4
Construction	0.6	0.3	-0.4	0.9	1.1	-1.7	-0.3	-0.2	-0.6	-0.1
Freight turnover	0.7	1.2	-5.9	-0.7	-3.9	-8.3	-5.5	-8.3	-4.9	-3.4
Wholesale turnover	1.6	-1.1	-0.7 <sup>4</sup>	8.4	6.2	-8.1	0.3 <sup>4</sup>	1.5	-2.1	1.5 <sup>4</sup>
<b>Investment activity</b>										
Fixed capital investment <sup>5</sup>	1.7	0.5 <sup>3</sup>	-5.3 <sup>3</sup>	2.3	1.2	-7.6	-8.3 <sup>3</sup>	-9.0	-7.5	-6.9
Gross fixed capital formation	1.5	1.8	-6.0	2.9	1.8	-11.7	–	–	–	–
<b>Consumption, savings, and income</b>										
Household real disposable money income	1.0	0.9	-4.3	1.8	0.7	-8.4	-4.8	–	–	–
Household final consumption expenditure	2.5	2.6	-9.8	2.5	3.3	-22.2	–	–	–	–
Retail turnover	1.9	1.8	-4.8	2.1	4.4	-16.0	-2.5	-1.9	-2.7	-3.0
Commercial services to households	0.5	0.2	-18.7	0.2	-1.9	-36.1	-17.4	-23.2	-16.8	-12.2
<b>Labour market</b>										
Unemployment rate, SA (% of labour force) <sup>3</sup>	4.6	4.6	5.7	4.5	4.5	6.1	6.4	6.4	6.6	6.5 <sup>6</sup>
Nominal wages	9.5	7.2	5.6	8.2	8.8	3.0	...	6.4	3.7	...
Real wages	4.8	2.2	2.6	4.6	6.2	-0.1	...	2.9	0.1	...

<sup>1</sup> Monthly estimate of the Ministry of Economic Development.

<sup>2</sup> Key industries include: industrial output, agriculture, trade, construction, and transport.

<sup>3</sup> Bank of Russia's estimate.

<sup>4</sup> Estimate based on updated wholesale trade data.

<sup>5</sup> Monthly estimates of the Bank of Russia.

<sup>6</sup> Not adjusted for seasonality: 6.3%.

Note: the shading of table cells corresponds to the actuality of data: newer data / estimates are lighter.

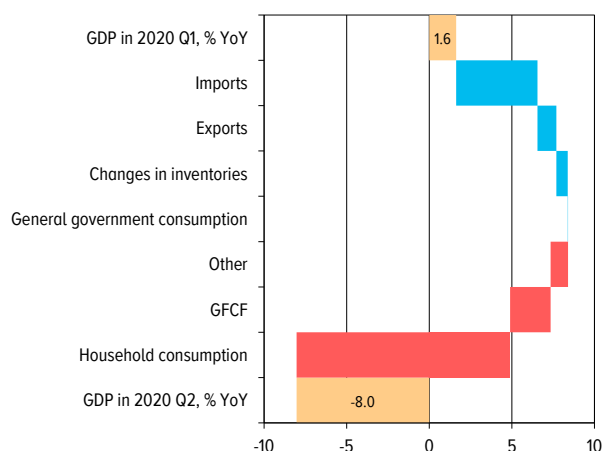
– January-August

– January-June

Sources: Rosstat, Ministry of Economic Development, Bank of Russia calculations.

DECOMPOSITION OF CHANGES IN ANNUAL GDP GROWTH Chart 1

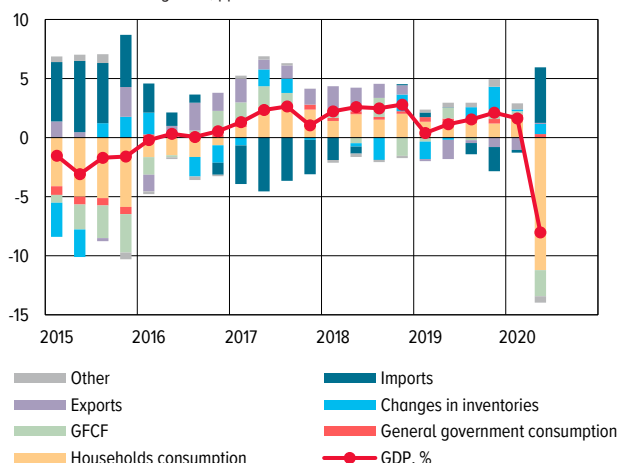
pp



Sources: Rosstat, Bank of Russia calculations.

GDP BY EXPENDITURE Chart 2

Contribution to annual growth, pp



Sources: Rosstat, Bank of Russia calculations.

## Aggregate output and leading indicators

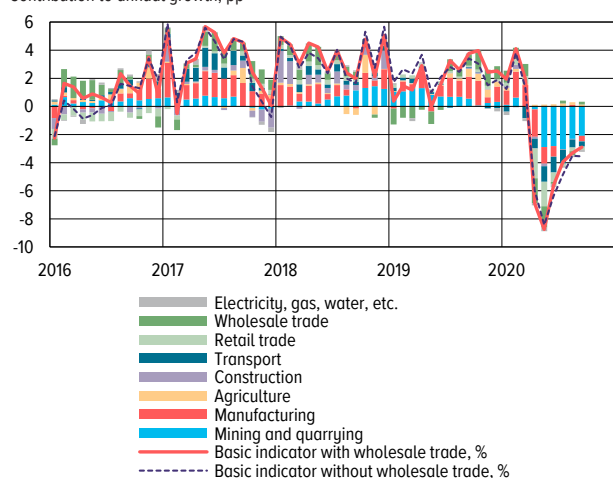
**GDP by expenditure.** In 2020 Q2, the annualised decline of GDP stood at 8%, slightly above the estimate provided in the Monetary Policy Report (No. 3, 2020): 9–10%. The biggest contribution to it was made by the drop in household final consumption expenditure due to the reduction of real disposable income and restrictions implemented to contain the spread of coronavirus (Charts 1 and 2). Contraction in investment activity amid growing uncertainty fed through to falling fixed capital investment (by 7.6%) (for more details, see the section ‘Investment activity’). At the same time, gross fixed capital formation dropped deeper – by 11.7%. Considerable reduction in demand, along with partially operating production facilities led to the increase of inventories, which made a positive contribution to GDP dynamics. This was accompanied by near-zero annual export growth rates, which was not in line with Bank of Russia expectations. These discrepancies were caused by the positive dynamics of crude oil and petroleum product exports associated with the 2019 low base effect shaped by the contamination of the Druzhba pipeline, the beginning of implementation of OPEC+ restrictions in May, as well as the redistribution of produced oil from domestic consumption to exports. The suspension of the Bank of Russia-implemented gold purchases also made a positive contribution to the growth of exports.

**Forecast of GDP and its components.** The easing of restrictions, accommodative monetary policy and measures taken by the Government of the Russian Federation to support households and businesses created conditions for the expansion of economic activity in 2020 Q3. However, the observed recovery will probably be short-lived because of the realisation of deferred demand and the effect of social support measures. Due to the worsening epidemiological situation, the recovery of consumer activity may considerably slow down by the end of the year. According to Bank of Russia estimates, GDP will reduce by 4.0–5.0% in 2020.

## BASIC OUTPUT INDICATOR

Chart 3

Contribution to annual growth, pp

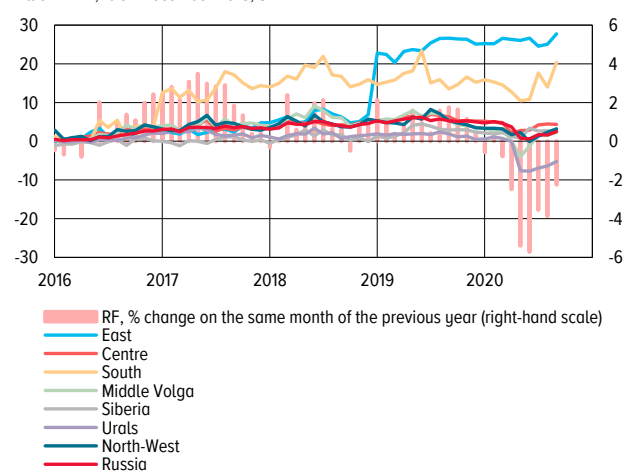


Sources: Rosstat, Bank of Russia calculations.

## ELECTRICITY CONSUMPTION, ADJUSTED FOR CALENDAR AND TEMPERATURE EFFECTS (OVER A MONTH)

Chart 4

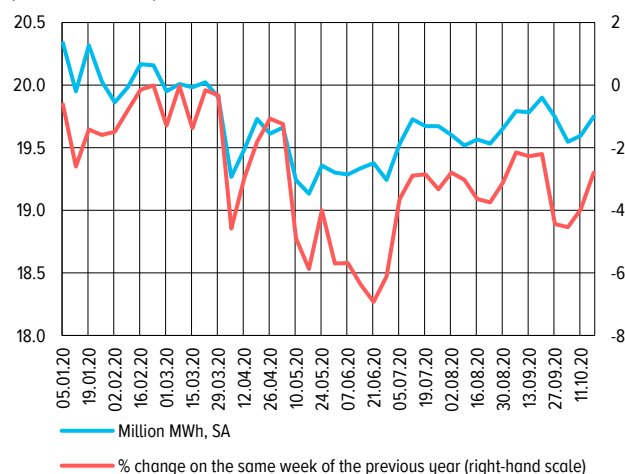
Million MWh, % on December 2015, SA



Sources: JSC System Operator of the United Power System, Bank of Russia calculations.

## ELECTRICITY CONSUMPTION, ADJUSTED FOR CALENDAR AND TEMPERATURE EFFECTS IN 2020 (OVER A WEEK)

Chart 5



Sources: JSC System Operator of the United Power System, Bank of Russia calculations.

The basic output indicator<sup>1</sup> suggested the continuation of the annual downturn in most key industries in September. When wholesale trade data were included in the indicator, it slightly increased compared to August, and it was virtually unchanged net of these data (-2.9% and -3.6% in September; and -3.3% and -3.5% in August respectively; Chart 3). The main contribution to the annual decrease of the indicator was made by the reduction in manufacturing output as well as the reduction of the positive contribution to agricultural output (for more details, see the section 'Production activity'). The pace of decline in retail trade also sped up, which suggests a suspension in the recovery of consumer demand (for more details, see the section 'Consumer activity').

**Electricity consumption.** According to Bank of Russia estimates, seasonally adjusted (hereinafter, SA) electricity consumption grew by 0.9% in September compared with the previous month. Growth was observed in the electric energy systems of Urals and North-Western regions, given the recovery in oil production, and also in the South amid the continuation of the tourist season (Charts 4 and 5). The annual<sup>2</sup> consumption of electricity slowed to 2.2% (vs -3.9% in August).

In the first half of October, the growth of electricity consumption halted. According to the Bank of Russia's estimate, amid the deteriorating epidemiological situation, the annualised decline in electricity consumption may reach 3.8%.<sup>2</sup>

## Production activity

**Industrial output.** In September, Rosstat updated the 2019-2020 industrial output dynamics. According to the revised data, in 2020, industrial activity recovered faster than previously assumed. The 2019 growth path was also revised upwards. Given the revised industrial output data, the annual growth of GDP may have

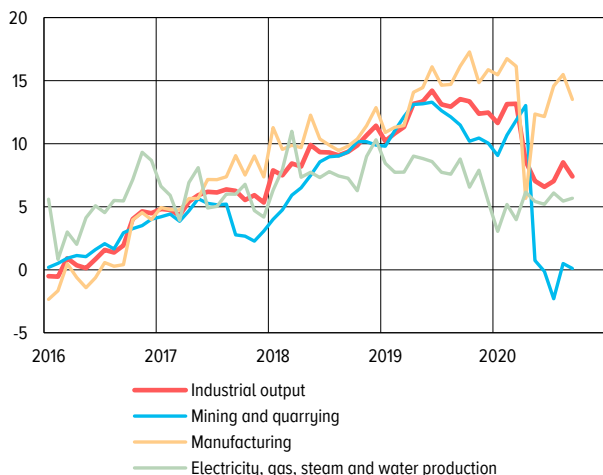
<sup>1</sup> A Bank of Russia estimate. It reflects the annual dynamics of production activity by key industry (manufacturing, agriculture, wholesale and retail trade, construction, and transport). Due to the publication of wholesale trade data with a certain lag, the indicator is calculated in two variants: with and without data on wholesale trade.

<sup>2</sup> Adjusted for calendar and temperature effects.

## INDUSTRIAL OUTPUT

Chart 6

% growth on December 2015, SA

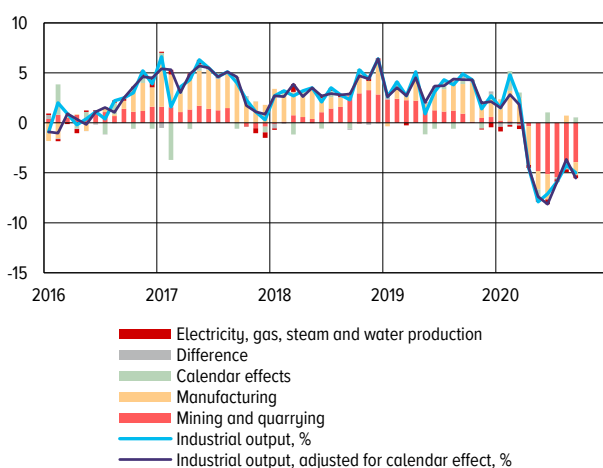


Sources: Rosstat, Bank of Russia calculations.

## INDUSTRIAL OUTPUT

Chart 7

Contribution to annual growth, pp

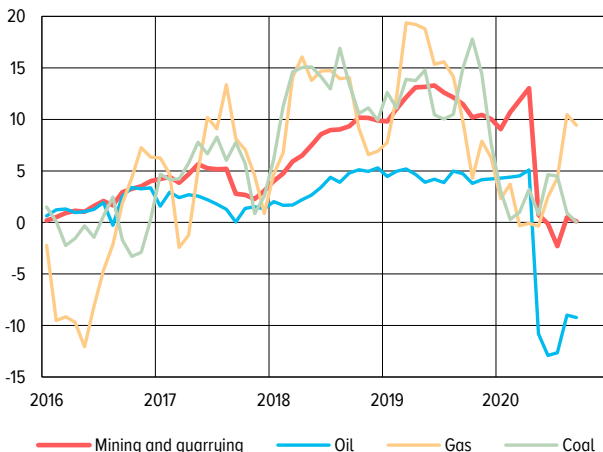


Sources: Rosstat, Bank of Russia calculations.

## MINING AND QUARRYING

Chart 8

% growth on December 2015, SA



Sources: Rosstat, Bank of Russia calculations.

also been adjusted upwards. According to Bank of Russia estimates, in 2019, the adjustment scale is assessed at 0.3 percentage points. In 2020, the direct contribution of the actual adjustment may reach 0.2–0.3 pp; however, given the assumption about rather considerable discrepancies in the estimate for the fourth quarter, this contribution may be widened to 0.5–0.7 pp.

In September, according to Bank of Russia estimates, the volume of industrial output decreased (SA; Chart 6). The biggest contribution to the reduced output was made by manufacturing. Mining and quarrying remained generally close to the level of the previous month.

The annual decline in industrial output reached 5.0% in September (vs -4.2% in August). Adjusted for calendar effects, industrial output dropped by 5.5% (vs -3.7% in August). The reduction was caused by all components of output, with mining and quarrying being the main contributors (Chart 7).

**Mining and quarrying.** The volume of output in mining and quarrying reduced slightly in September (SA) following the 2.9% growth in August (Chart 8). Oil production stabilised at the level consistent with the conditions of OPEC+ arrangements. The production of natural gas remained high. It was supported by the growing demand for gas demonstrated by European consumers, driven in part by the increasing price appeal of natural gas supplies via pipelines under long-term contracts compared to LNG. Another contribution to the decline of the overall indicator was made by coal production and the provision of production-related services in this industry.

In annualised terms, the seasonally adjusted decline of mining and quarrying output slowed down in September to 10.1% (vs -10.5% in August; Chart 9).

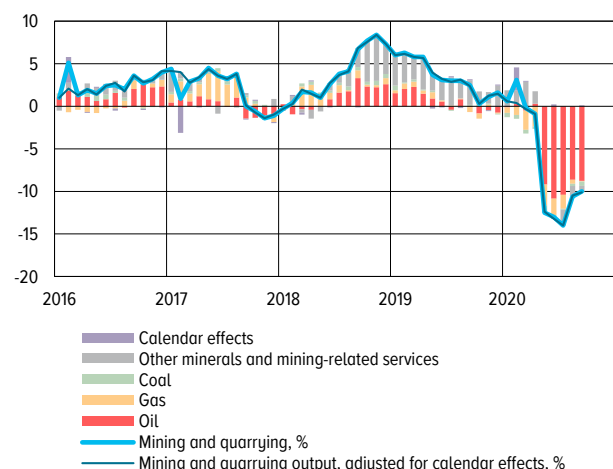
**Manufacturing.** Output in manufacturing contracted in September by 1.7% SA (vs +0.8% in August). Investment goods production made the biggest contribution to this decline. The output of intermediate goods demonstrated growth. Consumer goods production remained close to the level of the previous month (Chart 10).



## MINING AND QUARRYING

Chart 9

Contribution to annual growth, pp

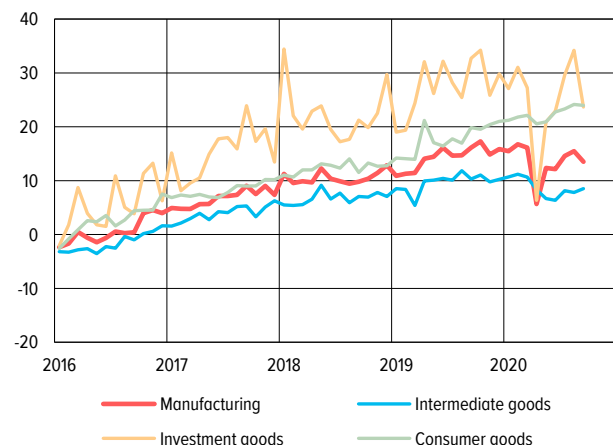


Sources: Rosstat, Bank of Russia calculations.

## MANUFACTURING

Chart 10

% growth on December 2015, SA

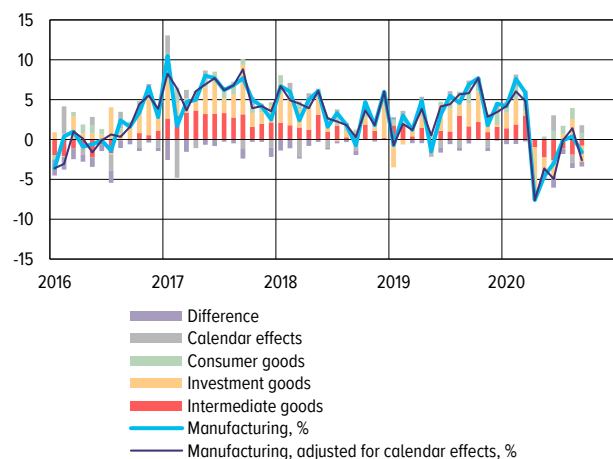


Sources: Rosstat, Bank of Russia calculations.

## MANUFACTURING

Chart 11

Contribution to annual growth, pp



Sources: Rosstat, Bank of Russia calculations.

Year-on-year output in manufacturing, adjusted for calendar effects, contracted by 2.6% (vs +1.4% in August). According to the Bank of Russia's estimate, this annual decline was mostly driven by investment goods production (Chart 11).

**Intermediate goods.** The output of intermediate goods resumed an upward movement. Its major contributors were the output of petroleum products and metallurgy due to support from domestic demand (output of chemicals and construction materials respectively). However, the output in the mentioned segments remained considerably below the level of 2020 Q1 (see the Annex, Charts 1 and 2).

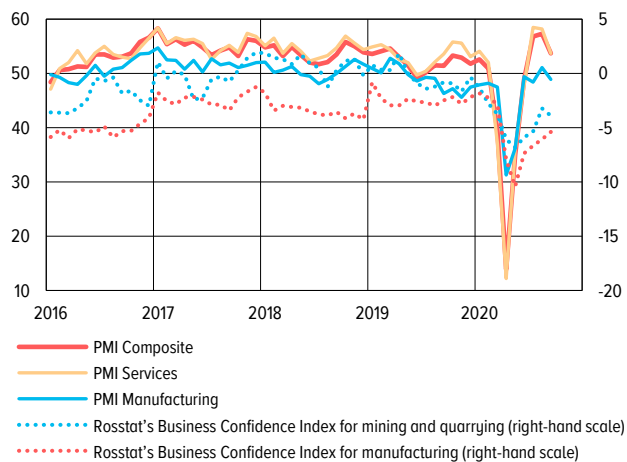
**Investment goods.** After the May–August recovery growth, the output of investment goods reduced and returned to its average 2018 level. This was related to, on the one side, the completion of part of unfinished orders in July–August and, on the other side, to the slow recovery of investment demand. Contraction in output was registered both by construction materials and engineering goods. Appreciable reduction was observed in the production of PCs, machinery and equipment, and also in the repair and assembly thereof. The output of motor vehicles resumed growth (see the Annex, Charts 3 and 4).

**Consumer goods.** In September, the output of consumer goods remained at the level close to the previous month (SA). Food products output adjusted downwards due to products of animal origin. The growth of non-food goods output came to a stop. Moreover, the output structure changed slightly: production of fast-moving consumer goods reduced and production of durable goods (motor cars, household appliances) increased (see the Annex; Charts 5 and 6).

**Business surveys.** Russia's composite PMI declined to 53.7 in September (vs 57.3 in August; Chart 12), remaining by far above the 50-point level and the readings of 2019 H2. In the services segment, economic recovery slowed down (53.7 in September vs 58.2 in August), whereas business sentiment in manufacturing deteriorated (48.9 in September vs 51.1 in August). Broadly speaking, this suggests the

BUSINESS SURVEYS: PMI AND ROSSTAT'S  
BUSINESS CONFIDENCE INDICES (SA)

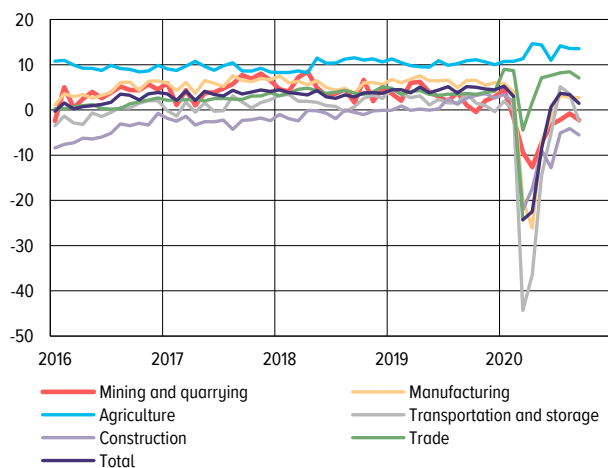
Chart 12



Sources: IHS Markit, Rosstat, Bank of Russia calculations.

BANK OF RUSSIA'S BUSINESS CLIMATE INDICATOR (SA)

Chart 13

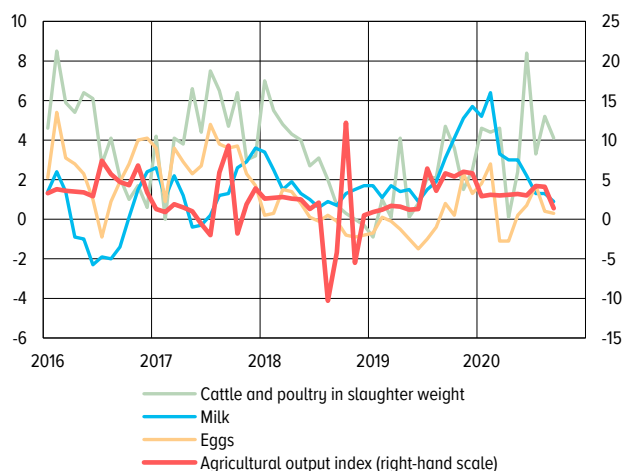


Sources: Bank of Russia's monitoring of enterprises, Bank of Russia calculations.

## AGRICULTURE

Chart 14

% change on the same month of the previous year



Source: Rosstat.

slowdown of recovery growth in the Russian economy largely associated with weakening domestic demand. Expectations for coronavirus intensification and further restrictive measures deteriorated business sentiment of enterprises.

At the same time, Rosstat's Business Confidence Indices (alternative indicators of economic activity) continued to recover in September, with mining and quarrying being the main contributors.

According to the monitoring of companies carried out by the Bank of Russia, the Business Climate Index<sup>3</sup> continued to decline in September but remained in positive territory (Chart 13). The estimates of the current situation and expectations improved most markedly among agroindustrial and trade enterprises. Contrastingly, business sentiment deteriorated noticeably in construction and transportation.

**Agriculture.** The annual growth of agricultural output slowed to 1.4% in September (vs 4.1% in August; Chart 14), mainly due to crop farming. This is caused by the last year's high base effect and a decline in the harvesting of several crops, including oil seeds. The animal farming retained positive dynamics for all output components.

According to recent data from Russia's Ministry of Agriculture, Russia's overall grain harvest totalled 130.6 million tons in bunker weight<sup>4</sup> as of 19 October, which is 9.9% more YoY. The Ministry of Agriculture has upgraded its grain harvest forecast for 2020 to the level of 125 million tons. Russian independent experts' forecasts are even higher (126–132 million tons): they predict the second largest harvest after the 2017 record.

**Transport.** In September, railway freight turnover resumed its decline (-0.5% in September vs +1.2% in August; Chart 15). This was caused by the reduced transportation of oil and petroleum products, ferrous metals and industrial raw materials.

Overall freight turnover decline slowed down in September to 3.4% in annual terms (vs -4.9% in August). Motor transportation turnover made the major negative contribution, which may

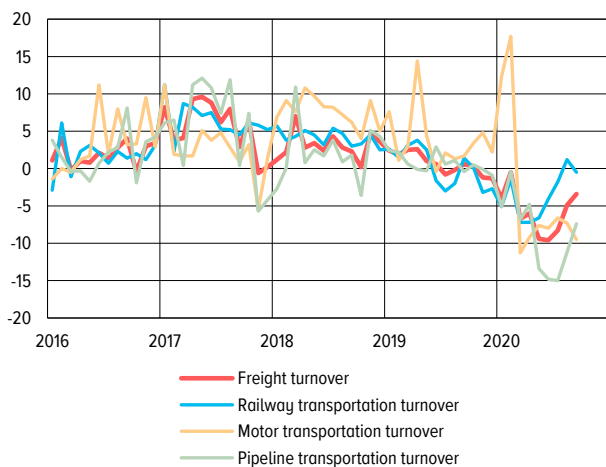
<sup>3</sup> The Bank of Russia's Business Climate Index shows actual and expected output and demand trends based on respondent companies' estimates.

<sup>4</sup> Weight of grain prior to cleaning and processing,

## FREIGHT TURNOVER

Chart 15

% change on the same month of the previous year

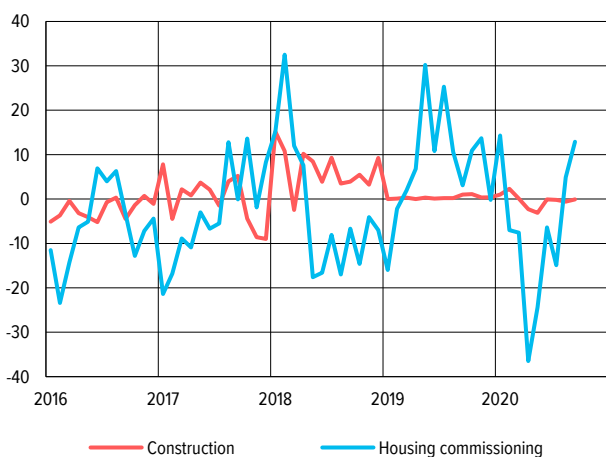


Source: Rosstat.

## CONSTRUCTION

Chart 16

% change on the same month of the previous year

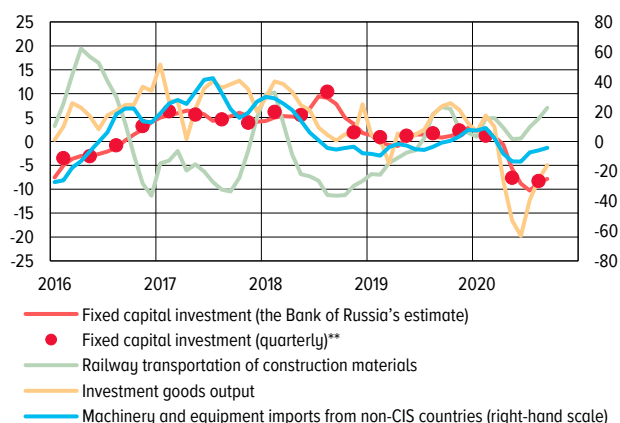


Source: Rosstat.

## INVESTMENT ACTIVITY INDICATORS

Chart 17

% 3MMA\*



\* Hereinafter, 3-month moving average (3MMA) % change on the same period of the previous year.

\*\* 2020 Q3 – the Bank of Russia's estimate.

Sources: Rosstat, Federal Customs Service, Russian Railways, Bank of Russia calculations.

be linked to the deterioration of retail trade turnover dynamics (see the section 'Consumer activity'). The annual rate of decline in pipeline transportation turnover reduced in September due to the recovery in oil and gas production.

**Construction.** After a sharp temporary drop in April–May, the volume of construction returned to the stagnation path which had been observed throughout 2019 (-0.1% in September; -0.6% in August; Chart 16). This could be explained not only by the actual weak construction dynamics, but also by the peculiarities<sup>5</sup> of statistics. At the same time, in September, the commissioning of housing accelerated noticeably to 12.9% (vs 4.9% in August), which could be due to shifts in commissioning deadlines caused by previously implemented anti-coronavirus restrictions. Over the 2021 horizon, new housing commissioning will be supported by increase in sales thanks to the preferential mortgage programme.

## Investment activity

According to Bank of Russia estimates, monthly (SA) growth in fixed capital investment continued in September. The dynamics of indirect indicators of investment demand remained mixed. The output of investment goods (both construction materials and engineering goods) contracted considerably (for more details, see the section 'Production activity'). At the same time, the growth of railway transportation of concrete and construction materials sped up. Notwithstanding the weakening of the ruble, engineering imports increased in September and reached their August–September 2019 level.

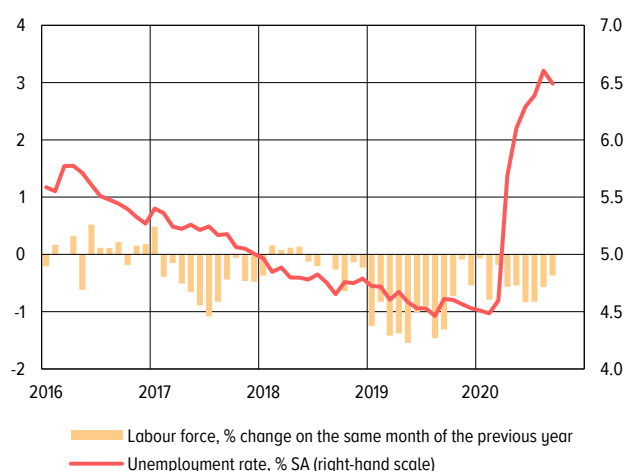
In annual terms, investment activity slowed down its decline in September (Chart 17). At the same time, according to the Bank of Russia's estimate, the annual rate of decline in fixed capital investment accelerated in 2020 Q3 compared to the previous quarter. Investment activity is expected to weaken further, which is related to its high rigidity due to the revision of 2020 investment plans and strict contractual terms.

<sup>5</sup> The initial Rosstat data on construction works may differ from the final estimate because contractors usually provide wrong (understated) statistics and adjust them throughout the calendar year.



## UNEMPLOYMENT AND LABOUR FORCE

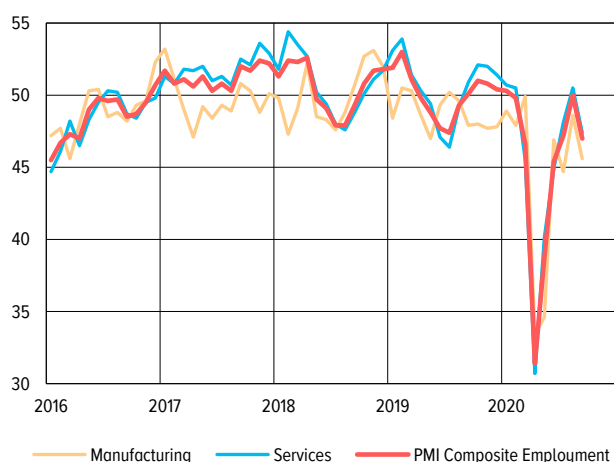
Chart 18



Sources: Rosstat, Bank of Russia calculations.

## PMI FOR EMPLOYMENT (SA)

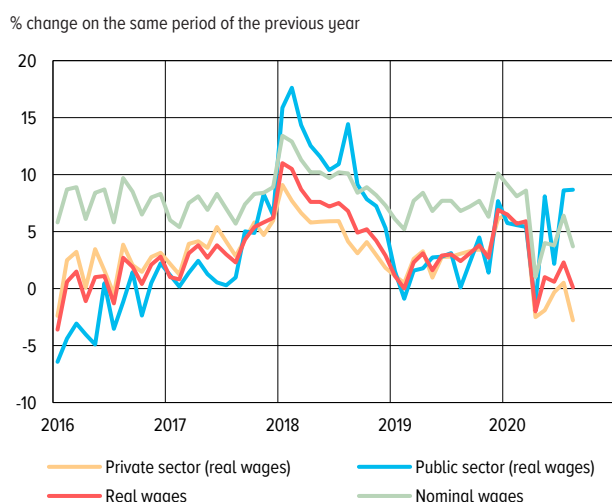
Chart 19



Source: IHS Markit.

## WAGES

Chart 20



Sources: Rosstat, Bank of Russia calculations.

## Labour market and incomes

**Employment.** September 2020 saw recovery in demand for the labour force; employers' demand for employees returned to the March 2020 level. This caused a pick-up in employment and a slight reduction in the number of the unemployed. As a result, the unemployment rate<sup>6</sup> went down to 6.5% SA for the first time since February 2020 (vs 6.6% in August; Chart 18). At the same time, the PMI for employment<sup>7</sup> fell below 50 points (to 47 p, SA; Chart 19) both in manufacturing and in the services sector. This may imply the unstable character of employment recovery in September, and also the negative effects produced by the deteriorating epidemiological situation in the labour market.

**Wages (August).** Despite support measures from the budget sector, the annual growth of wages slowed in August 2020 to 3.7% (vs 6.4% in July; Chart 20). In real terms, wages increased by 0.1% on the same period of the previous year (vs 2.9% in July). In the private sector, annualised real wages decreased again. Real wages in trade, transport, construction, manufacturing industries, hotels and restaurants were below the 2019 level.

**Income.** In 2020 Q3, decrease in household real disposable income slowed to 4.8% (vs -8.4% in Q2;<sup>8</sup> Chart 21). This was facilitated by the removal of restrictions and a partial recovery of income from business activities, as well as government support measures in the form of social transfers and stimulating payments in the budget-financed sector of the economy. At the same time, the scale of income contraction remains considerable; it may hamper the recovery of demand over the mid-term horizon due to its disinflationary effect on price dynamics.

<sup>6</sup> Surveys are held during the third week of a month; respondents are to provide responses as of the second week of a month.

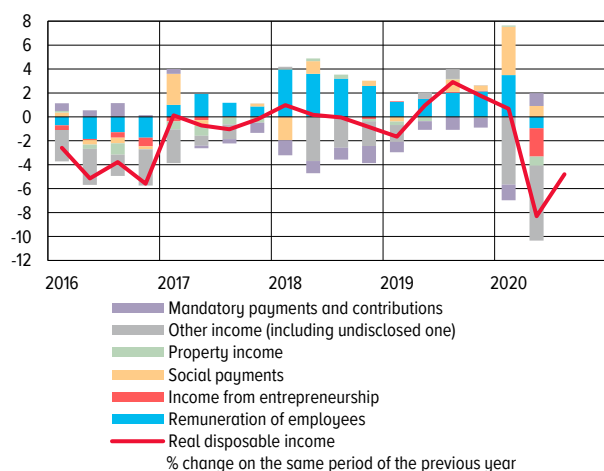
<sup>7</sup> Business surveys are held in the second half of a month.

<sup>8</sup> Rosstat made a downward revision of income dynamics by 0.5 pp for 2020 H1.

## HOUSEHOLD REAL DISPOSABLE INCOME

Chart 21

Contribution to annual growth, pp

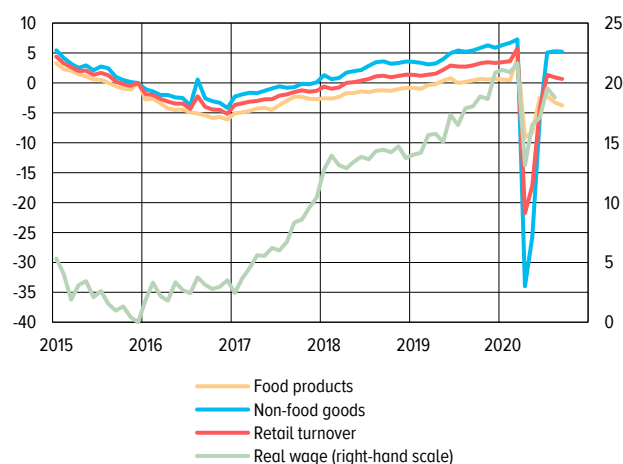


Sources: Rosstat, Bank of Russia calculations.

## RETAIL TURNOVER AND REAL WAGES

Chart 22

% growth on December 2015, SA

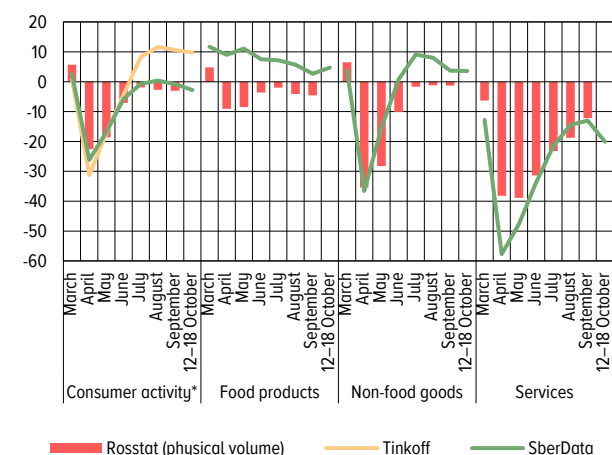


Sources: Rosstat, Bank of Russia calculations.

## CONSUMER DEMAND INDICATORS

Chart 23

% change on the same period of the previous year



\* Retail turnover for Rosstat.

Sources: Rosstat, SberData Laboratory, Tinkoff.

## Consumer activity

**Retail trade and services.** In September 2020, as in the previous month, retail turnover shifted downwards (-0.3%, SA; Chart 22), primarily owing to lower demand for food products (-0.5%, SA). Consumption of non-food goods remained at the level of the previous month. Recovery slowed down in the services sector (+4.1% SA vs +9.2%). The volume of fee-based services recovered only to the level of 2007 H1.

The annualised decline in retail turnover accelerated negligibly (-3.0% vs -2.7%; Chart 23) amid the pick-up in goods prices from 3.9% to 4.1%.<sup>9</sup>

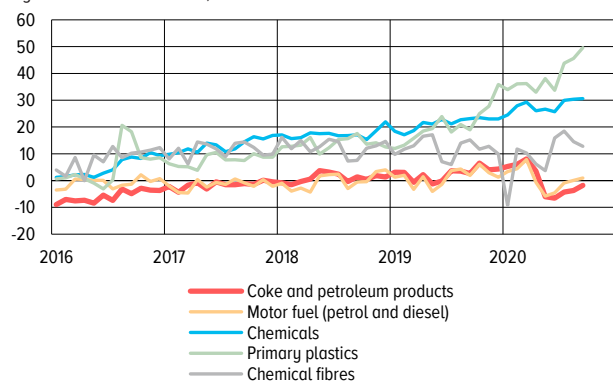
**Flash indicators.** In October 2020, flash indicators pointed to a decline in consumer activity, which reflects the negative influence of the pandemic. Whereas spending on goods consistently increased, demand for services shrank markedly. As new restrictions will be put in place and employees will be transferred to work-from-home mode, consumer demand will continue to decline, which will manifest the most in the services segment and sales of non-food goods.

<sup>9</sup> Refer to the information and analytical commentary [Consumer Price Dynamics](#), No. 9 (57), September 2020.

## Annex

PETROLEUM PRODUCTS, CHEMICAL SUBSTANCES  
AND PRODUCTS *Chart 1*

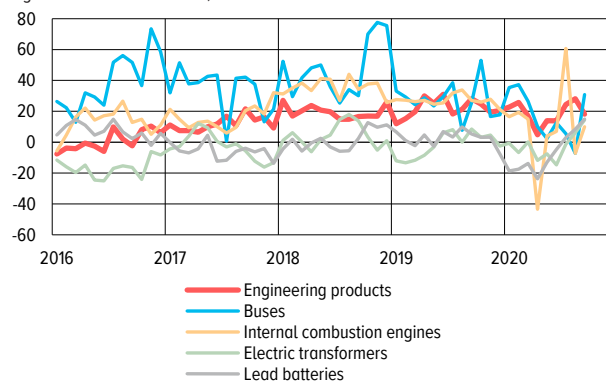
% growth on December 2015, SA



Sources: Rosstat, Bank of Russia calculations.

ENGINEERING PRODUCTS *Chart 4*

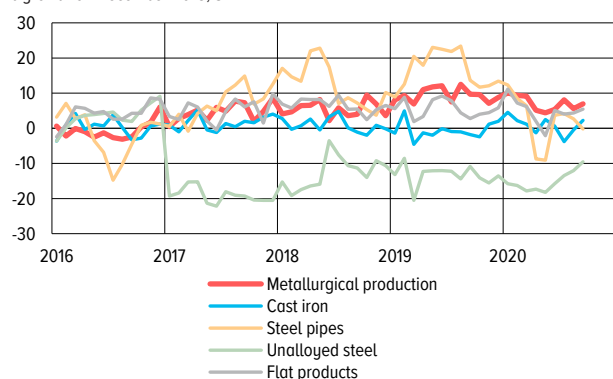
% growth on December 2015, SA



Sources: Rosstat, Bank of Russia calculations.

METALLURGICAL PRODUCTION *Chart 2*

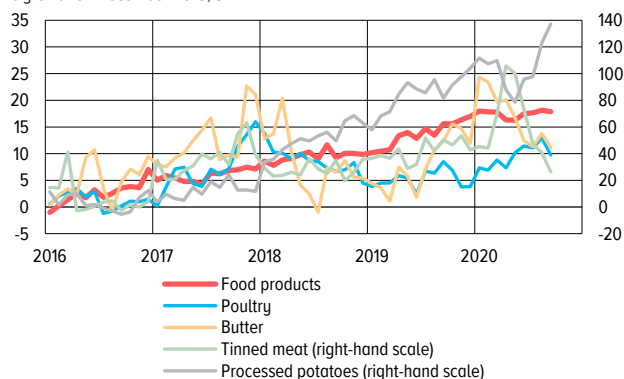
% growth on December 2015, SA



Sources: Rosstat, Bank of Russia calculations.

FOOD PRODUCTS *Chart 5*

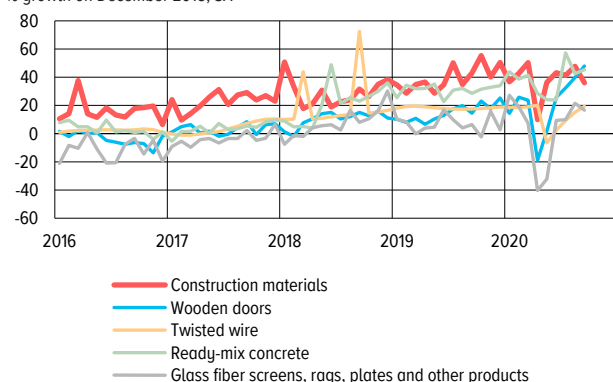
% growth on December 2015, SA



Sources: Rosstat, Bank of Russia calculations.

CONSTRUCTION MATERIALS *Chart 3*

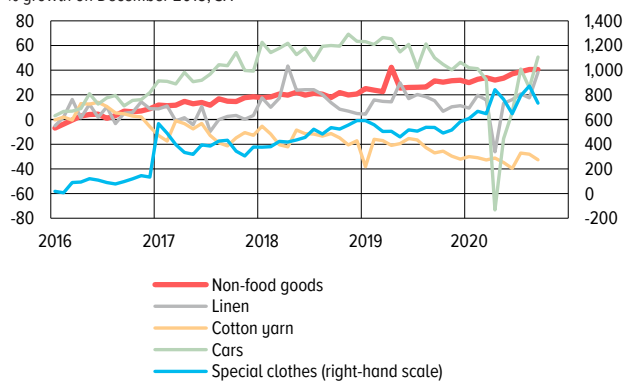
% growth on December 2015, SA



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 – 20.10.2020.

A soft copy of the [information and analytical commentary](#) is available on the Bank of Russia website.Please send your comments and suggestions to [svc\\_analysis@cbr.ru](mailto:svc_analysis@cbr.ru).

This commentary was prepared by the Monetary Policy Department.

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