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TRENDS AND OUTLOOKS
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R95 **Russian Economy in 2012. Trends and Outlooks.**
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The review provides a detailed analysis of main trends in Russia's economy in 2012. The paper contains 6 big sections that highlight single aspects of Russia's economic development: the socio-political context; the monetary and credit spheres; financial sphere; the real sector; social sphere; institutional challenges. The paper employs a huge mass of statistical data that forms the basis of original computation and numerous charts.

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Russian Production Macrostructure in 2012

Post-crisis performance of the Russian economy

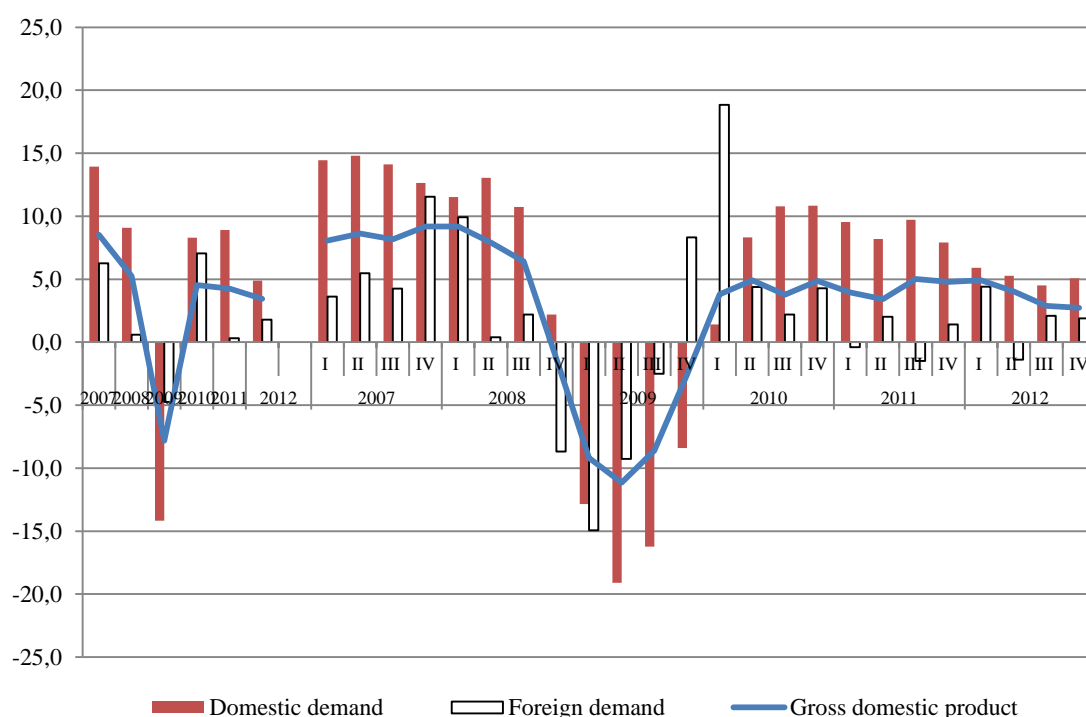
Analysis of the main performance indicators of the Russian economy in 2008 - 2012 allows us to identify the general and specific factors and conditions of the post-crisis recovery of the national economy. In 2012, as compared to pre-crisis 2007, the GDP had grown by 9.4%, including domestic demand (by 15.8%) and external demand (by 4.7%). However, economic development over the past five years has been extremely unstable and there have been significant qualitative differences during this period: (1) the acute phase of the financial crisis in QIV 2008 - QIV 2009 was followed by (2) the economic recovery in QI 2010 – Q II 2012, and (3) in QQIII - IV 2012 by a period of deceleration of development. But the effects of certain negative trends have been observed throughout the whole period.

The first phase. QIV 2008 - QIV 2009. A simultaneous reduction of foreign and domestic demand. The sharp fall in world commodity prices from QIII 2008 due to restricted demand led to a decrease in Russian exports of goods, both in volume and value. Since the II half of 2009, with the gradual recovery of the global commodity markets and the anti-recessionary measures of the Russian government to support the financial institutions, there has been a gradual remission of the economic downturn. In general, GDP in 2009 was at 92.2%, with foreign demand at 95.3% and domestic demand at 85.8% as compared to the previous year. It should be noted that for the domestic market the biggest change was mostly a reduction of imports by 30.1% compared to 2008. The reduction of domestic production for the domestic market in 2009 was 9.1% compared to the previous year, which slightly reduced the tension in the real sector.

Since QIV 2009, the growth dynamics for external demand were restored, and from QII 2010 domestic production for the domestic market was restored.

The second phase. QI 2010 - QII 2012. In 2010 - 2011, the average annual GDP growth rate was 104.4%, including the domestic demand (108.6%) and foreign demand (103.6%). The ratio of demand factors was differentiated by year. In 2010, production was restored to the 2008 level in the mining sector, and this has determined the dominant influence of foreign demand, but the GDP was still 3.6% below the 2008 level.

The 2008 - 2009 crisis, in contrast to the 1998 crisis, was characterised by a deeper fall in the real sector and a longer recovery period to growth. The dynamics of domestic demand in 2011 developed under the influence of growth in domestic production and imports. Since 2010, there has been a trend towards faster growth of imports relative to domestic production. In 2011, the volume of manufacturing production had recovered to the 2008 level, and this was one of the factors in achieving the pre-crisis level of domestic demand and GDP.



Source: Rosstat.

Fig. 1. GDP by components of the domestic and foreign demand in 2007–2012, as a % of the corresponding period of the previous year

Rapid recovery of consumer demand was another distinctive feature of 2010 - 2011. Household consumption in 2011 exceeded the 2008 level by 6.1%. Unlike 1998 - 2001, when low consumer demand limited the rate of expansion of the domestic market, the increase in people's real income, by 9.2% compared to 2008, led to a growth of retail sales in about the same proportion, and this was the dominant factor in the economic recovery. During the same period, an intensive growth of demand for consumer loans began, which in turn positively affected the financial sector.

The crisis in the investment sector was still a negative aspect of the economy in 2010–2011. The volume of capital investments in 2011 amounted to only 96.7% of the 2008 level.

Table 1

Key macroeconomic indicators in 2007 - 2012, as % of the previous year

	2007	2008	2009	2010	2011	2012
1	2	3	4	5	6	7
Gross domestic product	108.5	105.2	92.2	104.5	104.3	103.4
Capital investments	122.7	109.9	84.3	106	108.3	106.6
Construction	118.2	112.8	86.8	103.5	105.1	102.4
Commissioning of housing floorspace	121.1	104.6	93.5	97.6	106.6	104.7
The volume of industrial production	106.8	100.6	90.7	108.2	104.7	102.6
Mining operations	103.3	100.4	99.4	103.6	101.9	101.1

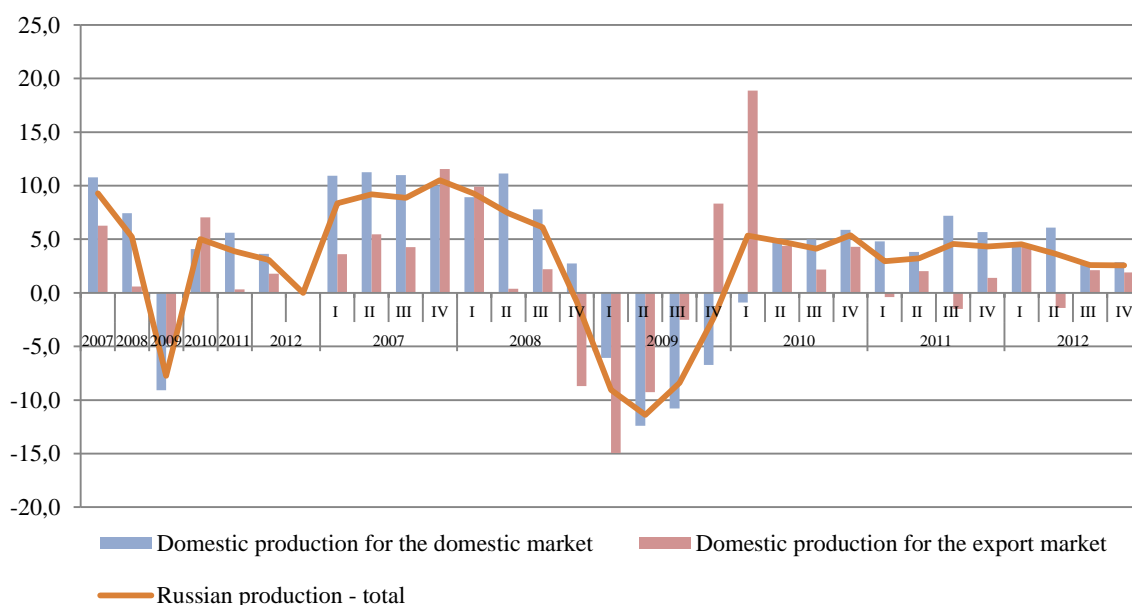
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1	2	3	4	5	6	7
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Manufacturing industry	110.5	100.5	84.8	111.8	106.5	104.1
Power, gas and water	99.4	100.6	96.1	104.1	100.1	101.2
Agricultural production	103.3	110.8	101.4	88.7	123	95.3
Freight turnover	102.4	100.7	89.9	106.9	103.4	101.7
Retail turnover	116.1	113.7	94.9	106.4	107	105.9
foodstuffs	112.6	111.7	98.1	105.1	103.2	103
non-food products	119.1	115.3	91.8	107.7	110.8	108.4
Retail services	107.7	104.3	97.5	101.5	103.2	103.5
Exports	105	96.8	97	106.9	101.6	100.4
Imports	127.1	113.5	63.3	134.8	122.2	105.5
Real disposable income	112.1	102.4	103.1	105.1	100.4	104.2
Real wages	117.2	111.5	96.5	105.2	102.8	107.8
The real size of pensions	104.8	118.1	110.7	134.8	101.2	104.9
The number employed in the economy	102.4	99.7	98.1	100.7	101,3	100.9
Number of unemployed	89.2	98.0	141.1	74.0	89.1	85.3
Number of registered unemployed	101.1	102.2	99.6	100.4	76.3	80.1
Consumer price index	111.9	113.3	108.8	108.8	106.1	105.1
Producer price index of industrial products	125.1	93.0	113.9	116.7	112.0	106.8

Source: Rosstat.

Third phase. QIII - IV 2012. In the second half of 2012 production for the domestic market dramatically slowed due to a reduction in agricultural production, instability of investment demand and a flat manufacturing production performance. Compared to the same period of the previous year, the growth rate of domestic production for the domestic market in the II half of 2012 fell to 102.8% from 105.4% in the I half of 2012. The associated restriction of demand for Russian products on the domestic market was not compensated by an acceleration of exports and imports in QIV 2012 as compared to the previous quarter, and eventually led to a slowdown in growth of domestic demand to 4.4% in the II half of 2012 compared to 8.8% a year earlier.



Source: Rosstat.

*Fig. 2. Domestic production by components used
in 2007 - 2012, as % of the previous year*

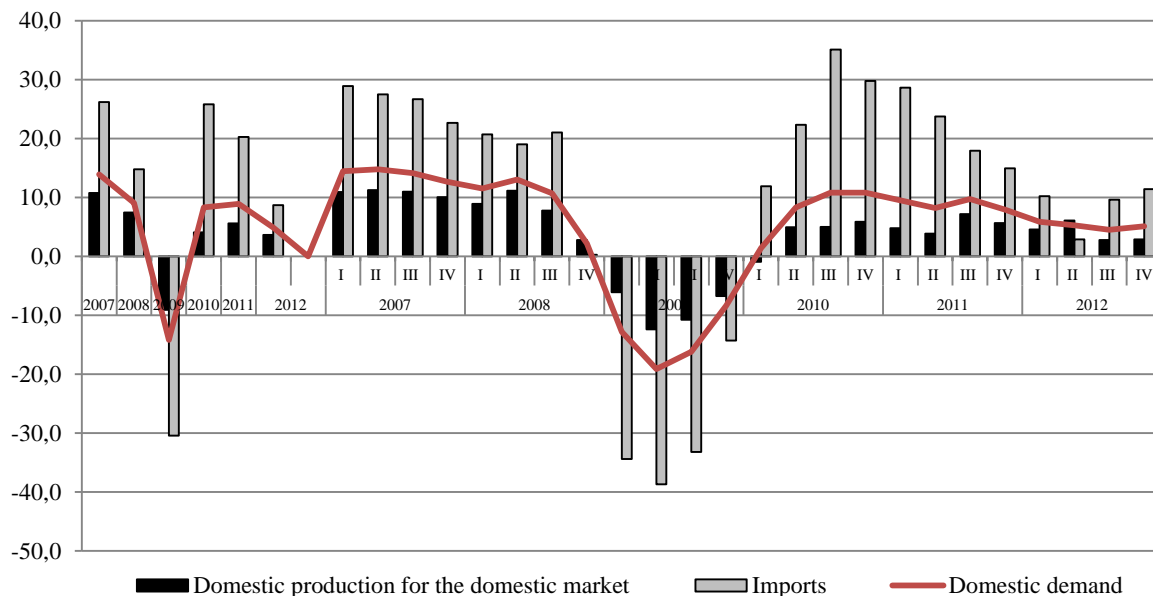
In general, the GDP growth rate in 2012 was 103.4% compared to the previous year, including domestic demand at 104.9% and foreign demand at 101.8%.

The performance of the domestic market was determined, on the one hand, by the growth of domestic production for both domestic consumption and for export markets, and on the other by the dynamics and structure of imports. The slowdown in growth of domestic production from 5.0% in 2010 to 3.9% in 2011 and 3.1% in 2012 resulted from the slowdown in both the export sector and in production for the domestic market.

The dynamics of domestic demand in 2012 were significantly affected by the weakening of the growth rate of investment and of the consumer markets. In 2012, the growth of capital investments was 6.7% against 8.3% a year earlier, retail trade was 5.9% against 7.0% and for the services sector 3.5% against 3.2%. The growth slowdown in 2012 compared to the previous year was also observed in the commodity sector: in the industry sector which was up to 102.6%, including the manufacturing industry (104.1%) and construction (102.4%). A fall in agricultural production by 4.7% compared to the previous year also negatively affected the economic performance in 2012 (*Table 1*).

Noting the importance of expanding the domestic market for post-crisis development, we should pay attention to the gap in the dynamics of domestic production compared with the growth of imports. In the Russian economy this trend has operated for a long time now.

Note that from the QIV 2010 a weakening in the growth of imports was recorded simultaneously with a slowdown in domestic demand. Domestic production for the domestic market is recovering very slowly, and in contrast to the 1998 crisis, when the reserve of competitive production capacity initiated a large-scale process of import substitution, this could no longer happen in 2009 - 2012: reserve capacity was not available. In 2012, the growth rate in imports amounted to 8.7% (2011 - 20.3%), domestic production for domestic consumption to 3.6% (5.6%) and domestic demand to 4.9% (8.9%).



Source: Rosstat.

*Fig. 3. Dynamics of domestic demand by components in 2007-2012,
as % of the previous year*

In 2010 - 2012, the share of imports in the structure of the domestic market was increasing, and the proportion of investment and intermediate goods in the structure of imports was also increasing, whilst the proportion of imported consumer goods was declining. This kind of shift in the structure of imports was qualitatively new for the Russian economy and took place during the on-going crisis in the investment sector and in several industries for intermediate goods. The share of imports in the commodity resources of the retail trade in 2012 was 44%, including 34% for food products and 52% for non-food products.

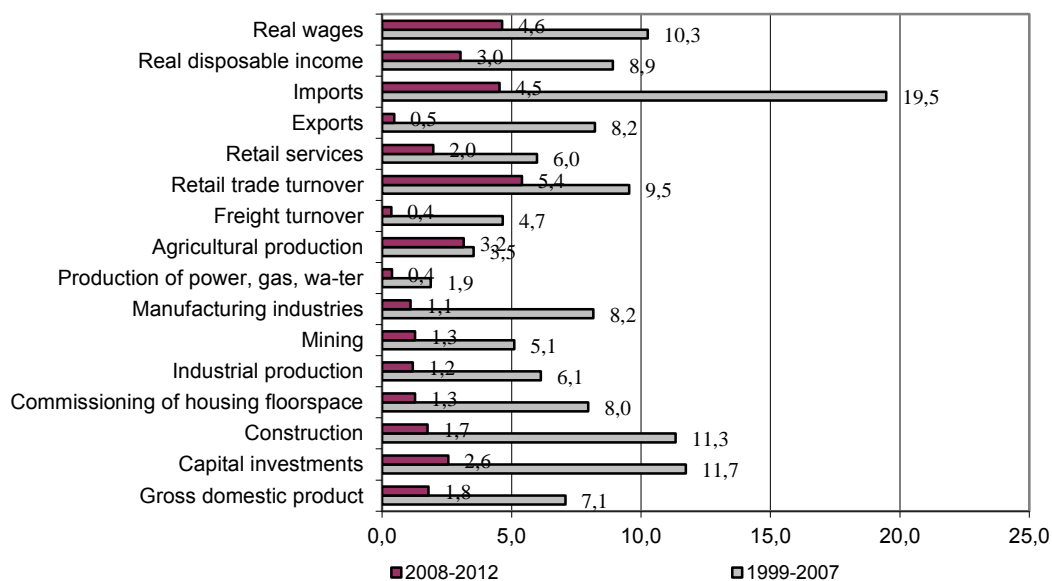
Table 2

The structure of retail commodity resources in 2010 - 2012, %

	Commodity resources Retail	Including	
		domestic	imported
2007	100	53	47
2008	100	56	44
2009	100	59	41
2010	100	56	44
2011	100	57	43
2012	100	56	44

Source: Rosstat.

Analysis of the key macroeconomic trends suggests that although the Russian economy as a whole had overcome the consequences of the crisis by 2012, the unstable dynamics of key macroeconomic indicators and the slow recovery of the investment sector defined the development of a constraints system in the short term. The factors determining the economic dependence on the world commodity markets continued to dominate the economy. Overcoming the effects of the crisis of 2008 as part of the reproduction model formed in 2000–2007 allowed the economy to exceed the level of successful performance in 2007, though the sustainable and effective development of the Russian economy requires changes in the business and competitive environment, improvement of production capacity, strengthening of innovations and an improvement in the quality of human capital.



Source: Rosstat.

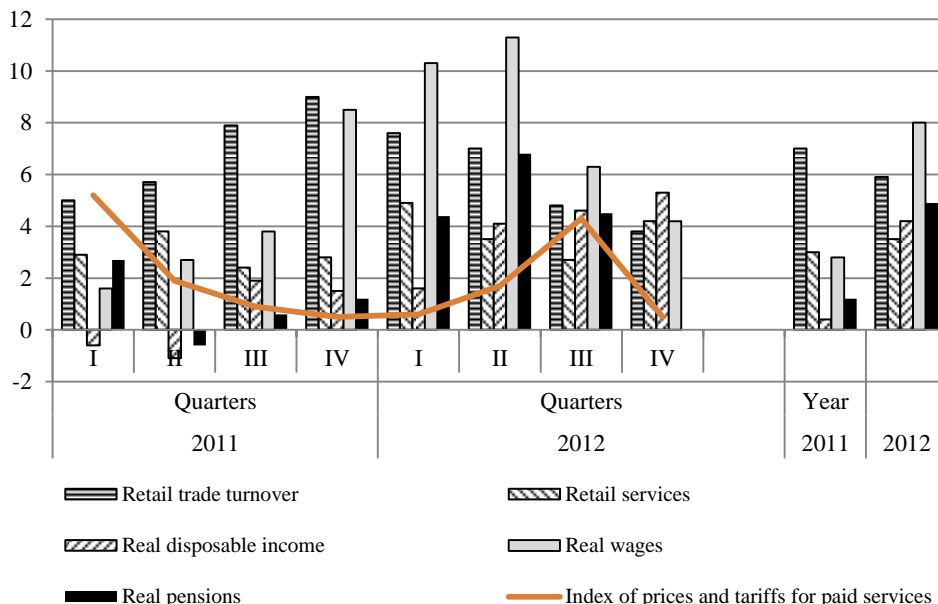
Fig. 4. The annual growth rate of main economic and social indicators in 1999 - 2007 and 2007–2012, %

The main characteristics of GDP utilization

Throughout 2012 the growth in consumer demand remained one of the key factors in maintaining economic growth. The quarterly dynamics of retail trade turnover in 2012 showed that the slowdown in real income growth and real wage growth was accompanied by a gradual weakening of consumer demand, and that activity here was significantly affected by the rate of inflation, the risks associated with the indexation of regulated tariffs in the second half of the year and the change in exchange rate, with growing expectations of devaluation.

In the first half of 2012 growing consumer demand was associated with wage increases in the public sector and low inflation compared with the corresponding period of the previous year. The feature of consumer behaviour in this period was a sharp increase in demand for food products. While in the I half of 2011, growth in the food market turnover amounted to 1.0%, in the I half of 2012 it was 4.9% compared to the same period of the previous year. The growth rate of the non-food market, however, slowed down from 111.3% to 9.4%.

From the II half of 2012 the acceleration of inflation due to changes in prices and tariffs for paid services and to increasing food prices determined a slowdown in consumer demand both in the food and non-food markets. In general, the food price index in 2012 was 7.5% (2011 - 3.9%), the non-food price index was 5.2% (106.7%) and the services price index was 7.3% (8.7%). In the QIII 2012, the growth in retail trade slowed to 4.6% and to 4.5% in the QIV of the previous year against the 7.9% and 9.0% of a year earlier. As a result, the retail trade turnover in 2012 increased by 5.9%, including food products (by 3.1%) and non-food products (by 8.4%).



Source: Ministry of Economic Development of Russia, Rosstat.

*Fig. 5. The dynamics of retail trade, paid services and real income turnover,
as % of the corresponding period of the previous year*

As in 2011, the growth of retail sales resulted from a reduction in the rate of savings and an increase in consumer lending. Loans to individuals, as at the end of December 2012, amounted to RUR 77,371 trillion and had increased by 1.39 times compared to the same period of 2011. The share of savings in personal incomes decreased by 0.3 percentage points compared to 2011, and amounted to 10.1%. Note that the proportion of income used for currency purchases by the public had increased by 4.9% in 2012 against 4.2% a year earlier.

Table 3

The structure of population income utilisation in 2011-2012., as % of the total

	Cash Revenues	Including those allocated to							
		Purchase of goods or payment for services	Including		Mandatory payments and contributions	Savings	Incl. Deposits and securities	Purchase of currency	Increase (+), decrease (-) in disposable cash
			Purchase of goods	Payment for services					
2011									
QI	100	77.3	58.1	17.6	9.7	+10.6	+2.8.	3.8	-1.4
QII	100	72.4	55.0	16.1	10.3	10.9	+6.3	3.8	+2.6
QIII	100	76.0	58.7	15.6	10.4	+6.9	+2.3	4.8	+1.9
QIV	100	69.4	54.5	13.6	10.8	+12.7	+8.7	4.3	+2.8
Year	100	73.5	56.4	15.6	10.3	+10.4	+5.3	4.2	+1.6
2012									
QI	100	79.9	60.9	16.9	10.6	+7.3	+1.8	5.3	-3.1
QII	100	73.4	56.2	15.4	11.0	+9.9	+7.6	4.4	+1.3
QIII	100	75.9	58.4	15.3	11.2	+7.4	+3.2	5.9	-0.4
QIV	100	69.7	54.5	13.5	10.3	+14.4	+10.8	4.1	+1.5
Year	100	74.2	57.2	15.1	10.8	+10.1	+6.2	4.9	0.0

Source: Rosstat.

The model of post-crisis recovery has been focused primarily on the recovery in domestic demand by maintaining the standard of living of the population. Real personal income in 2009–2012 was positively stable, real wages, retail sales and household consumption in 2010 exceeded the pre-crisis levels of 2008. The full implementation of the State's social obligations which was related to the part of the population with a low level of accumulation led to a change in the GDP structure. The share of final consumption in GDP increased from 64.7% in 2007 to 70.2% in 2012, including household consumption (from 46.1% to 52.9%). By 2012, the gross accumulation had not been restored to pre-crisis levels.

Table 4

Utilised GDP structure in 2007-2012, as % of the total

	2007	2008	2009	2010	2011	2012
GDP	100	100	100	100	100	100
Including						
Final consumption expenditure	64.7	66.7	69.5	68.9	69.3	70.2
Including						
Household	46.1	48.4	49.8	50.3	51.3	52.9
Government	18.2	17.8	19.2	-18.1	17.6	17.0
Gross accumulation	24.3.	25.5	16.3	20.1	23.6	24.0
Net exports	12.5	9.2	15.7	13.1	8.7	7.1
Statistical discrepancy	-1.5	-1.5.	-1.6	-1.7	-1,8	-1.5.

Source: Rosstat.

In 2012, capital investments increased by 6.7% as compared to the previous year and exceeded the 2008 rate by 3.3%. The share of gross savings and capital investments in GDP for 2010 - 2012 had not reached the pre-crisis level. The share of capital investments in GDP in 2012 is estimated at 21.1%, which corresponds to the 2003 index. Despite the fact that in 2010–2012 capital investments grew faster when compared to GDP, the deep recession in the investment sector in the acute phase of the crisis had been the binding constraint on economic development.

Table 5

**The share of gross savings, gross accumulation and investments
in fixed assets in GDP in 2007–2012, as % of the total**

	2007	2008	2009	2010	2011	2012
GDP	100	100	100	100	100	100
Gross savings	35.3	33.3	30.5	31.1	30.7	29.8
Gross accumulation	24.3	25.5	16.3	20.1	23.6	24.0
Including						
Gross fixed capital accumulation	21.2	22.3	20.7	21.0	22.2	22.7
Capital investments	20	21.3	19.5	19.7	20.5	21.1

Source: Rosstat.

Changes in the GDP structure by source of income

The domestic market performance in 2009 - 2012 was based on the redistribution of income from enterprises to the public. The share of wages in GDP in 2012 increased to 50.4% compared to the average of 46.7% in 2007.

Table 6

**GDP structure by source of income in 2007 - 2012, as % of the total,
at current prices**

	2007	2008	2009	2010	2011	2012
Gross domestic product	100	100	100	100	100	100
Including						
Remuneration of employees, including hidden labour and mixed income	46.7	47.4	52.6	49.7	49.5	50.4
Net taxes on production and imports	19.2	20.0	16.6	17.7	19.5	19.4
Gross operating surplus and gross mixed income	34.1	-32.6	30.8	-32.6	31.0	30.2

Source: Rosstat.

In the structure of the employed population, only 8% are non-hired employees, i.e. employers engaging hired employees on a permanent basis for work at their enterprises, and the self-employed population. Accordingly, this has determined the peculiarities of the population income structure. Almost 66% of the population income in 2012 was comprised of the wages of hired employees with a reducing proportion of income being derived from business activity and property.

A characteristic feature of the Russian economy is the high degree of differentiation of the average wage by economic activity. In industry, the degree of wage differentiation is illustrated by the widening gap in the rate of wage growth in the mining and manufacturing industries. The accrued nominal wage in the mining sector in 2012 was 1.87 times higher than the average in the rest of the economy, including the 2.1 times increase in the fuel and energy production sector. In the manufacturing sector, the wages were 93% of the average for the

economy and 45% of that in the extractive industries. A 2.3 time excess over the average monthly wage in the economy was recorded in sectors related to the production of oil products and the transportation of fuel and energy resources, as well as in the financial sector. In the education and public health sectors the average wage increased to 70 - 77% of the average level in the economy. The aspect of wages for work in different economic activities has had a significant influence on the structure of income and spending, consumer demand, the nature of employment and the distribution of labour in the economy.

The level and the share of wages of hired employees in the GDP structure has had the dominating influence on social variables, including the labour market. In 2012, the number of the employed population increased to 71.3 million against 70.7 million in 2011, which caused a decline in the overall unemployment rate to 5.8% from 6.8%.

The intensity ratio (number of unemployed people registered with the state employment services per 100 jobs) fell, in December 2012, from 117.4 to 91.3 compared to January of the same year.

Table 7

**Major indicators of the labour market
in 2010–2012**

	2010	2011	Quarters				2012	Quarters			
			I	II	III	IV		I	II	III	IV
The number of employed in the economy, mln.	69.8	70.7	69.4	70.7	71.9	70.9	71.3	69.9	71.7	72.3	71.4
The number of unemployed, mln.	5.6	5.0	5.6	5.0	4.8	4.7	4.3	4.9	4.2	4.0	4.0
Unemployment rate, as a % of the economically active population	7.5	6.6	7.5	6.6	6.2	6.3	5.7	6.5	5.5	5.3	5.3
The number of unemployed registered with the state employment services, mln.	2.2		1.6	1.5	1.3	1.2	1.1	1.3	1.2	1.1	1.0
The registered unemployment rate, as a % of the economically active population	2.5	1.4	2.2	2.0	1.7	1.9	1.5	1.8	1.6	1.4	1.4
The average nominal gross wages of employees of organisations, RUR	21.090	23.369	21.354	23.154	23.352	26.905	26.690	24.407	26.547	26.237	29.702
As a % of the corresponding period of the previous year											
The number of employed people in the economy	100.6	101.3	102.1	101.0	101.1	101.1	100.7	100.9	101.4	100.6	100.7
The number of unemployed	89.1	89.1	85.7	88.1	91.8	91.6	85.3	91.1	84.8	84.4	85.0
The number of unemployed registered with the state employment services	90.0	76.3	73.1	75.4	78.0	80.2	80.9	80.1	78.5	79.9	82.4
The average nominal gross wages of employees of organisations	112.4	111.5	111.2	112.5	112.2	115.7	113.3	114.6	115.5	113.3	111.0
Average gross monthly real wages	105.2	102.8	101.6	102.7	103.8	108.5	107.8	110.3	111.3	106.9	104.2

Source: Rosstat.

Note that in 2000–2012 the changes in demand for labour were determined by shifts of employment into the services sector. In recent years, almost all businesses in the industry have shown a decline in employment with the greatest decrease in jobs in the manufacturing sector. The annual growth rate of labour productivity in 2010 - 2012 was 103.1% and remained well below the pre-crisis levels.

The low efficiency of manufacturing is one of the main reasons for the reduced competitiveness of the Russian economy. The dramatic gap between the growth rates of labour productivity and of wages in the economy in favour of the latter, even during the crisis, nega-

tively affected the quality economic indicators. However, the possibility of further increases in labour costs were fairly tightly confined by changes in the competitive market environments, due to the increased RUR exchange rate and the increasing pressure from imports.

The outpacing of wage growth relative to productivity increased the burden on the economy and affected its financial performance.

Table 8

Development of productivity in the Russian economy, in% to the previous year

	OKVED (All-Russia Classifier of Economic Activities)	2003	2004	2005	2006	2007	2008	2009	2010	2011
Total for the economy		107.0	106.5	105.5	107	107	104.8	95.9	103.0	103.8
Including										
Agriculture, hunting and forestry	A	105.6	102.9	101.8	104.3	105.0	110.0	104.6	90.0	119.9
Fishing, fish farming	B	102.1	104.3	96.5	101.6	103.2	95.4	106.3	76.4	112.5
Mining operations	C	109.2	107.3	106.3	103.3	103.1	100.9	108.5	100.6	101.2
Manufacturing industry	D	108.8	109.8	106.0	108.5	108.4	102.6	95.9	108.3	105.9
Production and distribution of power, gas and water	E	103.7	100.7	103.7	101.9	97.5	102.1	96.3	99.0	99.9
Construction	F	105.3	106.8	105.9	115.8	112.8	109.1	94.4	98.7	102.8
Wholesale and retail trade;	G	109.8	110.5	105.1	110.8	104.8	108.1	99.0	98.8	104.8
Hotels and restaurants	H	100.3	103.1	108.5	109.2	108.0	109.2	86.7	94.5	101.2
Transportation and Communication	I	107	108.7	102.1	110.7	107	106.4	95.4	102.4	102.6
Real estate, renting and services	K	102.5	101.3	112.4	106.2	117.1	107	97.5	99.4	101.2
For reference: real gross wages		110.9	110.6	112.6	113.3	117.2	111.5	96.5	105.2	102.8

Source: Rosstat.

In 2012, pre-crisis levels of profitability in the economy were not achieved. The profitability of sold goods, products and works in 2012 was 9.7%, i.e. 1.8 percentage points below the previous year. Mining activities remained the most profitable activity in 2012.

At current prices on the domestic and world energy markets, the enterprises engaged in mining showed a positive net balanced financial result, of RUR 1.503.9 trillion in 2012, representing 98.4% of the same index for the previous year. The financial status of manufacturing enterprises has slightly improved: in 2012 their balanced net financial result amounted to RUR 2,093.3 trillion and was 12.8% higher than the level of the previous year. With a general trend towards slower growth in industry, in 2012 the profitability of the mining industry decreased to 31.1% against 35.7% in the previous year, and for the manufacturing industries to 11.0% against 13.2%.

Table 9

Profitability of sold goods, products, works, services and assets of organisations by economic activities in 2007-2012, %

	2007	2008	2009	2010	2011	For the incomplete range of businesses and organisations	
						2011	2012
1	2	3	4	5	6	7	8
Profitability of sold goods, products, works, services							
Total for the economy	13.1	-13.0	10.8	10.0	9.6	11.5	9.7
Including:							

Section 4
The Real Sector of the Economy

Agriculture, hunting and forestry	14.3	10.0	7.8	9.1.	9.1	10.3	11.7
Fishing, fish farming	8,4	7,4	20.7	19.6	18.2	22.0	21.4
Mining operations	30.5	25.4	28.8	31.9	31.4	35.7	31.1
Fossil fuel extraction	30.1	22.6	28.2	29.2	27.5	32.1	28.8
Manufacturing	18.3	17.1	13.4	14.8	13.2	13.2	11.0
Production of vehicles and equipment	6.1	4.1	1.5	4.8	5.5	7.5	6.0
Production and distribution of power, gas and water	5.2	4.9	6.8	7.1	6.4	6.6	4.6

cont'd

1	2	3	4	5	6	7	8
Construction	5.8	5.6	5.0	4.5	4.3	6.8	3.7
Wholesale and retail trade	8.8	10.8	7.1	8.3	8.9	10.5	8.2
Transportation and Communication	15.7	14.2	13.4	13.5	11.4	12.8	12.2
Return on assets							
Total for the economy	10.4	5.4	5.5	6.7	6.5	7.0	6.8
Including:							
Agriculture, hunting and forestry	6.4	4.8	2.9	2.9	3.9	4.2	4.8
Fishing, fish farming	8.0	1.0	15.1	13.3	11.9	13.8	18.7
Mining operations	11.4	10.5	8.8	11.6		18.4	15.3
Fossil fuel extraction	11.0	10.3	9.1	10.9	13.2	17.9	15.2
Manufacturing	14.8	8.6	6.1	8.2	8.4	8.2	7.9
Production of vehicles and equipment	4.4	-2.0	-5.1	-0.3	2.1	2.9	2.2
Production and distribution of power, gas and water	3.5	2.3	2.2	4.6	1.1	1.4	2.2
Construction	4.6	3.1	2.6	2.0	2.1	2.6	2.7
Wholesale and retail trade	9.0	5.3	7.8	7.1	9.8	10.2	8.2
Transportation and Communication	8.0	5.4	4.4	5.3	4.9	4.7	5.4

Source: Rosstat.

Dynamics and pattern of production by economic activity

In 2012, there was a recorded slackening of the annual and quarterly performance of almost all economic activities. The physical quantum index for basic economic activities was 102.6% of the previous year, against 105.5% in 2011. The slowdown in industrial production determined the reduction of demand for the infrastructure market sectors. The freight turnover index amounted to 101.7% as compared to 2011. The decline in agricultural production in 2012, by 4.7% as compared to the previous year, negatively affected economic performance. During the second half of the year there was a significant slowdown in construction activities.

Table 10

Indices of main indicators of production in 2011-2012, as a % of the previous year

	2011					2012				
	Year	Quarter				Year	Quarter			
		I	II	III	IV		I	II	III	IV
GDP	104.3	104.0	103.4	105.0	104.8	103.4	104.9	103.9	102.9	102.6
Production of goods and services in basic economic activities	105.5	105.6	104.0	106.7	105.6	102.6	105.0	103.2	101.6	101.1
Agricultural sector										
Agricultural production	123.0	100.7	100.6	129.7	134.7	95.3	104.0	104.3	94.0	89.4
Industrial sector	104.7	105.9	104.8	105.1	103.3	102.6	104.0	102.3	102.5	101.7
Mining operations	101.9	103.3	101.7	102.2	101.3	101.1	101.9	100.4	101.2	100.9

Section 4
The Real Sector of the Economy

Manufacturing industry	106.5	110.6	105.8	105.7	104.6	104.1	104.4	104.7	104.5	102.8
Power, gas and water	100.1	99.0	101.9	101.4	98.5	101.2	102.6	100.8	100.0	100.5
Investment sector										
Construction	105.1	102.6	99.9	105.6	109.1	102.4	105.0	104.6	98.9	102.8
Commissioning of housing floorspace	106.6	97.6	95.2	114.3	111.8	104.7	105.7	98.7	104.2	107.1
Capital investments	108.3	99.2	105.0	108.2	113.6	106.7	116.6	110.2	107.3	101.3
Machinery and equipment	100.5	111.0	113.2	112.5	100.8	100.4	119.8	88.1	90.2	100.4
Production of construction materials	109.3	112.7	109.3	108.6	106.5	105.6	112.7	109.9	104.8	100.6
Market infrastructure										
Retail turnover	107.0	105.0	105.7	107.9	109.0	105.9	107.6	107.0	104.8	104.5
Freight turnover	103.4	103.9	105.2	102.4	102.3	101.7	103.8	99.8	102.8	100.6

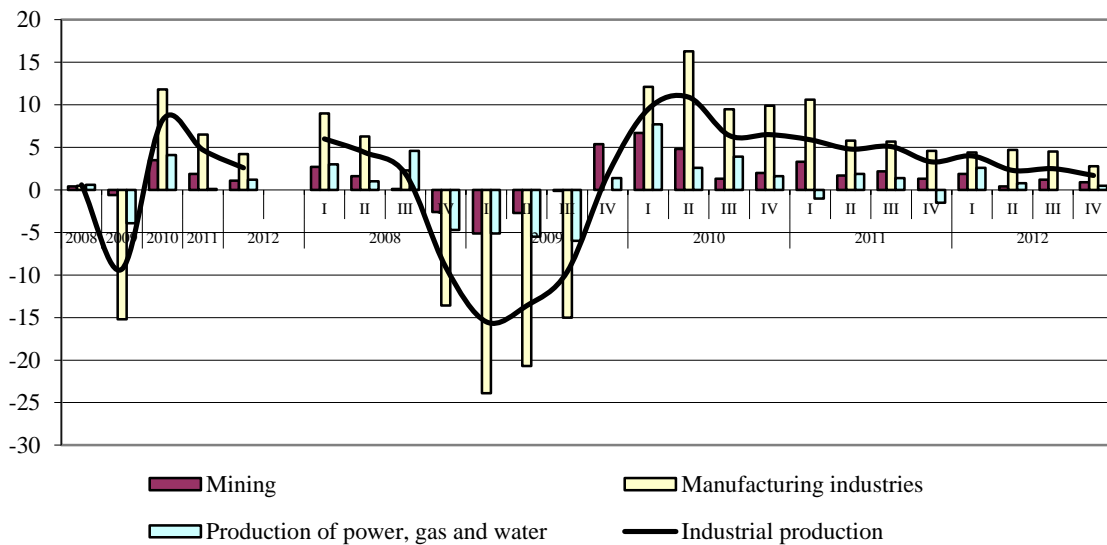
Source: Rosstat.

The greatest decline in industrial production was recorded in the first half of 2009, when the decline was 14.5% compared to the corresponding period of the previous year. This included a 22.3% decline in the manufacturing sector. Since the early second half of 2009, as a result of recovery in foreign demand and government anti-crisis actions, the situation began to improve, and industrial production for the year only decreased by 9% compared to the previous year.

With the recovery of the global and domestic demand for energy, the growth of mining operations in the QIV 2009 provided momentum for the development of the manufacturing industries. Industrial production in the first half of 2010 was 110.2%, including extractive industries (105.8%) and manufacturing industries (114.3%). Since QIII 2010 the economic growth has slowed down due to a decline in export growth rate. The index of industrial production in 2010 was 108.2%, including mining operations (103.5%) and manufacturing industries (111.8%). Note that mining output in 2010 exceeded the pre-crisis 2008 level by 2.3%.

Throughout 2011, industry recorded slow growth largely determined by the high base of the previous year. The industrial production index in 2011 was 104.7%, including 106.5% in the manufacturing industries. At the end of 2011 the manufacturing sector had reached the pre-crisis level, which, in addition to maintaining the growth of mining production, has determined industry recovery to pre-crisis levels.

Having reached pre-crisis levels, starting from the second half of 2012, the Russian economy began to show signs of growth slowdown, as the structure of the economy had not changed significantly, and the potential impact of the factors contributing to the growth was over. In 2012, the industry recorded weakening quarterly dynamics associated with a sharp slowdown in manufacturing industry. In the IV quarter of 2012, the index of processing production fell to 102.8% compared to the same period of the previous year, and the result for the year amounted to 104.1%. The simultaneous slowdown in mining production to 101.1%, and in the production and distribution of electricity, gas and water to 101.2%, compared to 2011 determined the reduction of the general industry index to 102.6%.



Source: Rosstat.

Fig. 6. Production growth by economic activity in industry in 2008 - 2012, as a % of the corresponding period of the previous year

The performance of the manufacturing industries is quite significantly differentiated by the types of economic activity, with the largest influence being the result of the ratio of the production rate of capital and consumer goods. Slow recovery in investment demand has determined the characteristics of the machine-building sector.

In the acute phase of the crisis in 2009, the volume of production in the machine-building sector was 2/3 of the 2008 level. The characteristics of the post-crisis machine-building sector were defined by the outstripping growth of production of vehicles and equipment, which was based on government support encouraging demand. In 2012, the production of vehicles and equipment exceeded the 2008 indicators by 16.6%. The dynamics of the production of machinery and equipment, as well as of electrical and optical equipment has been highly volatile during the past four years. Whilst in 2010 the high growth rates for these activities were determined by the low base of the previous year, the inhibited performance in 2011 - 2012 was determined by the weakening of domestic demand for capital goods. In 2012, the production of machinery and equipment remained at 15.5%, and the production of electrical and optical equipment was 8.7% lower than in 2008. Despite the rapid development in the production of vehicles, the machine-building industry has generally not reached pre-crisis levels. This was one of the factors causing the slow recovery of associated production. Metallurgy and finished metal production recovered to pre-crisis levels only in 2012. Low investment activity determined the continued crisis in the production of construction materials. Note that the negative impact of the sharp slowdown of capital investments in QIV 2012 sustained the trend to weakening of the performance of the full range of associated industries.

Table 11

Indices of main production indicators in 2011-2012, as a % of the previous year

	2011				2012						
	Year	Quarter				Year	Quarter				
		I	II	III	IV		I	II	III	IV	

Section 4
The Real Sector of the Economy

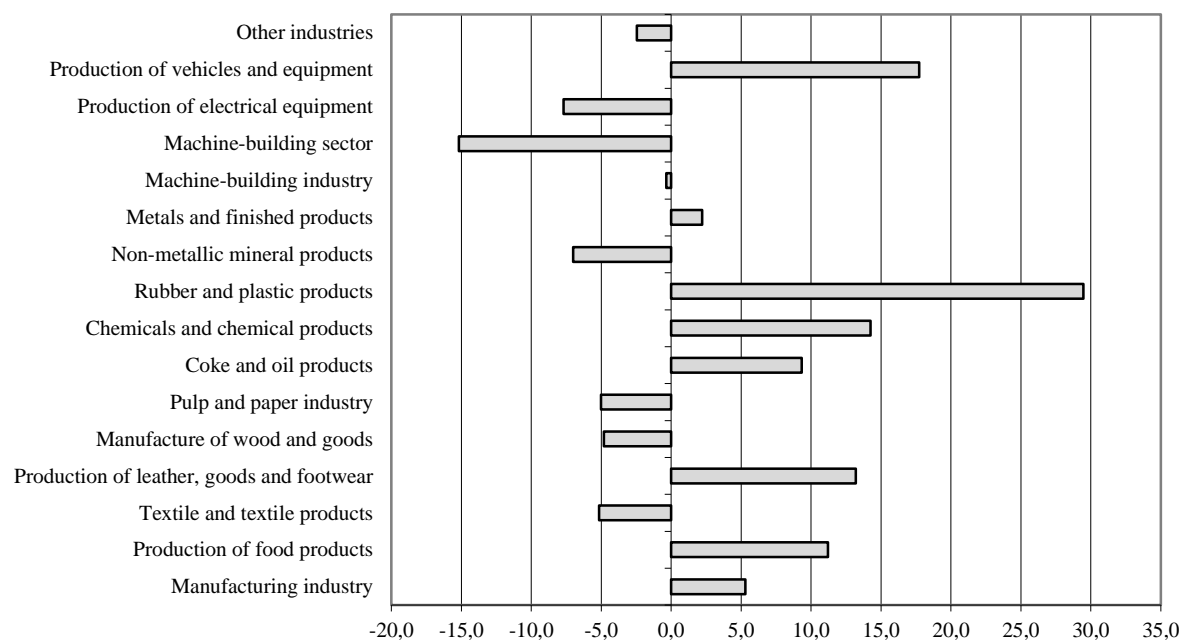
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Agricultural sector										
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Industrial sector										
Mining operations	101.9	103.3	101.7	102.2	101.3	101.1	101.9	100.4	101.2	100.9
Manufacturing industry	106.5	110.6	105.8	105.7	104.6	104.1	104.4	104.7	104.5	102.8
Power, gas and water	100.1	99.0	101.9	101.4	98.5	101.2	102.6	100.8	100.0	100.5
Investment sector										
Construction	105.1	102.6	99.9	105.6	109.1	102.4	105.0	104.6	98.9	102.8
Commissioning of housing floorspace	106.6	97.6	95.2	114.3	111.8	104.7	105.7	98.7	104.2	107.1
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Market infrastructure										
Retail turnover	107.0	105.0	105.7	107.9	109.0	105.9	107.6	107.0	104.8	104.5
Freight turnover	103.4	103.9	105.2	102.4	102.3	101.7	103.8	99.8	102.8	100.6

Source: Ministry of Economic Development of Russia, Rosstat.

In 2009 - 2012, production increased faster in the food processing industry relative to the pre-crisis period. In 2012, the results of the crisis were noted in the textile and clothing industries, as well as in the production of leather and shoes: the decline in production was 2.0% and 10.9% respectively, compared to the previous year.

Pre-crisis levels in the intermediate goods sector are being exceeded in the production of rubber and plastic products, chemical production and the production of coke and oil products. This was defined by the simultaneous recovery of the supply of these products to the domestic and foreign markets.

In general, the structure of the post-crisis recovery of industry repeated the pattern of the 1998–2000 developments, when growth started in the production of food products, mining and the industries related to the processing of hydrocarbons and other mineral resources, and then spread to other economic activities in industry. However, in 2012, the unstable dynamics of the key macroeconomic indicators and the slow recovery of the investment and financial sectors determined the system of constraints on the Russian economy in the short term.



Source: Rosstat.

Fig. 7. The rate of growth of manufacturing industries by economic activity in 2012, as a % of values in 2008