

REAL ECONOMY: TRENDS AND FACTORS IN Q1 2013

O.Izryadnova

In Q1 2013 the slowdown of the economic growth was determined both by the decrease in the external demand by 4.6% versus the corresponding period of the previous year and the sudden weakening of the internal demand dynamics. In Q1 2013 the indices of the industrial growth and the volumes of investments in fixed assets remained at the level of the previous year. The rates of retail trade turnover in Q1 2013 nearly halved as compared with the corresponding period of the previous year and made 3.9% while the growth rates of the real disposable incomes went up to 5.3% versus 1.6% a year ago.

The level of the unemployment in Q1 2013 remained below the indices of the corresponding period of the previous year but exceeded the indices of Q4 2012.

The Federal State Statistics Service made the second estimation of the GDP for 2012 and corrected the quarterly data of the previous year. The volume of the GDP in Russia made Rb 62599.1bn in the current prices. Besides, the data on the volumes and dynamics of the investments in fixed assets were specified. As a result of 2012 the volume of investments in fixed assets made Rb 12568.8bn, having increased by 6.6% as compared with the previous month. Taking into account the correction in question the data on the structure and dynamics of GDP use as broken by components were specified: the resources of gross national savings made 32.9% and the proportion of investments in fixed assets – 20.6% of the GDP. Throughout 2011–2012 the growth of the consumer demand remained one of the main factors supporting the economic growth. In 2012 the final consumption of the households went up by 6.8% versus the previous year, exceeding by 13.8% the pre-crisis level of 2008.

Throughout the last three years the situation at the internal market was defined by the anticipating growth of the import physical volumes as compared with export and domestic production. As a result of 2012 the physical volume of export (calculated according to system of national accounts methodology) will go up by 3.7%, import – by 15.3%, domestic production – by 3.6% as compared with the pre-crisis level of 2008.

Table 1

GDP CALCULATED BY THE METHOD OF USE OF INCOMES, IN 2011–2012

| | Rb bn | | As percentage to the total | | As percentage to the previous year | |
|---|---------|---------|----------------------------|------|------------------------------------|-------|
| | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 |
| Gross domestic product | 55799.6 | 62599.1 | 100 | 100 | 104.3 | 103.4 |
| including: | | | | | | |
| expenses for final consumption | 37439.3 | 42471.5 | 66.5 | 67.1 | 104.8 | 104.8 |
| by households | 27164.5 | 30543.4 | 48.2 | 48.1 | 106.4 | 106.8 |
| state management | 10040.7 | 11664.8 | 17.8 | 18.5 | 100.8 | 99.8 |
| non-commercial organizations, servicing households | 234.1 | 263.3 | 0.5 | 0.4 | 95.1 | 99.0 |
| gross accumulation | 14207.8 | 16264.5 | 25.1 | 25.7 | 122.6 | 106.6 |
| net export | 4776.5 | 4567.9 | 8.4 | 7.2 | - | - |
| export | - | - | - | - | 100.3 | 101.4 |
| import (-) | - | - | - | - | 120.3 | 109.5 |

Source: Federal State Statistics Service.

According to preliminary estimations the RF Ministry of Economic Development, in Q1 2013 GDP grew by 1.1% versus 4.8% in the corresponding period of the previous year. The slow-

down in economic growth was defined both by a drop in the external demand and a sudden weakening in the dynamics of domestic demand. In Q1 2013 investments in fixed assets were practically stabilized at the level of the previous year, and the growth rates of retail sales have almost halved reaching 3.9% versus the same period last year. As compared with the corresponding period of the previous year in March 2013 the index of consumer prices went up to 107.0% (103.7% a year ago). Real wages growth rates also slowed down from 110.3% in January–March 2012 to 104.2% in Q1 2013. As a result of pensions and other social payments indexation real disposable monetary incomes went by 8.5% in March 2013 (in annual terms) versus 2.4% a year ago. At the same time it was the decrease in the growth rates of credits issuing to the population that acted as a significant factor weakening the consumer activity of the population observed since August 2012.

Table 2

GROWTH RATES OF THE MAIN ECONOMIC INDICES IN Q1 2008–2013, AS PERCENTAGE
TO THE CORRESPONDING PERIOD OF THE PREVIOUS YEAR

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|-------|-------|-------|-------|-------|--------|
| GDP | 109.1 | 90.5 | 103.5 | 103.5 | 104.8 | 101.1* |
| Industry | 106.0 | 84.5 | 109.5 | 105.9 | 104.0 | 100.0 |
| Investments in fixed assets | 123.6 | 85.0 | 95.2 | 99.2 | 116.5 | 100.1 |
| Retail trade turnover | 117.2 | 101.3 | 102.2 | 105.0 | 107.9 | 103.9 |
| Real disposable incomes of the population | 107.8 | 101.9 | 108.1 | 100.0 | 101.6 | 105.3 |
| Real wages | 113.4 | 99.2 | 103.1 | 101.6 | 110.3 | 104.2 |
| Export | 153.6 | 52.0 | 161.1 | 122.8 | 116.3 | 95.4 |
| Import | 140.8 | 63.6 | 118.8 | 142.4 | 112.1 | 103.7 |
| Total number of the unemployed | 96.5 | 134.8 | 96.3 | 85.7 | 85.3 | 96.2 |

* preliminary data of the RF Ministry of Economic Development
Source: Federal State Statistics Service.

Starting with H2 2012 the Russian economy demonstrates low rates of economic growth by nearly all the types of economic activity. In January–February 2013 the situation was considerably complicated when the volume of industrial production in annual terms dropped by 1.8%. In March 2013 the industrial growth recovered by 2.6% as compared with March 2012 and by 12.1% versus February 2013. As a result of Q1 2013 the industrial output reached the level of the corresponding period of the previous year. The recovery of the growth rates in annual terms was registered by all consolidated types of industry: 100.6% in minerals extraction, 103.4% in manufacturing industries and 101.0% in electricity, gas and water production and distribution.

Whereas the dynamics of the extractive sector was considerably influenced by the reduction in the Russian hydrocarbons export by 5.0% as compared with Q1 2012, the functioning of the manufacturing sector was determined by the internal factors.

Starting with December 2012 the manufacturing sector has been negatively affected by the machine-building production output. As compared with the corresponding period of the previous year in March 2013 in the machine-building complex the machinery and equipment production index made 97.7%, electric, electronic and optic equipment production index – 94.5%. Starting with Q4 2012 the growth rates of transportation vehicles and equipment production has been observed to drop as compared with the previous year. In March 2013 the transportation vehicles production made 85.5% versus the figure of March 2012.

The trend towards the decrease in the investment activity determined not only the reduction in capital goods production but also the slowdown of the growth rates of the demand for imported machinery, equipment and transport vehicles in January–February to 101.9% versus 131.7% in the corresponding period of the previous year.

Taking into account the long-term trends of unsteady functioning of such types of activities, the dynamics of the consumer complex of the industry continues to demonstrate the acceleration of production recession. In March 2013 the textile and sewing industry production index made 93.4%, and leather, leather goods and footwear production index – 95.3% versus March 2012 figure.

Starting with H2 2012 the foodstuffs production growth rates have been observed to slow down. The foodstuffs production index made 100.5% versus March and 101.3% versus January–March 2012 as compared with 105.2% and 106.2% in corresponding period of the previous year. It should be noted that under the existing dynamics of the domestic foodstuffs production in January–February 2013 the import of foodstuffs and agriculture raw materials for their production growth rates were observed to accelerate to 110.5% versus the corresponding period of the previous year and expansion of their proportion in the total volume of the import.

In March 2013 the growth of the production in annual terms was maintained only in the segment of the intermediate goods. The increase in the output in chemistry, petrochemistry and metallurgy complex leveled out the drop of the production in the timber processing complex. The anticipating growth of chemistry production and rubber import as compared with the domestic production acted as a factor supporting the production of final goods for the internal market.

Table 3

PRODUCTION INDICES AS BROKEN BY MAIN TYPES OF MANUFACTURING INDUSTRIES IN Q1 2008–2013, AS PERCENTAGE TO THE CORRESPONDING PERIOD OF THE PREVIOUS YEAR

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|--|-------|-------|---------|-------|-------|-------|
| Industry | 106.2 | 84.5 | 109.5 | 105.9 | 104.0 | 100 |
| Minerals extraction | 100.7 | 96.2 | 106.7 | 103.3 | 101.9 | 99.1 |
| fossil fuels extraction | 102.7 | 100.4 | 106.4 | 100.3 | 102.3 | 99.5 |
| minerals extraction, excluding fossil fuels | 92.2 | 96.2 | 110.9 | 107.7 | 101.5 | 98.8 |
| Manufacturing industries | 108.7 | 79.2 | 112.1 | 110.6 | 104.4 | 101.2 |
| foodstuffs, tobacco and beverages production | 106.4 | 96.7 | 103.8 | 101.7 | 106.2 | 101.3 |
| textile and sewing industry | 102.6 | 78.8 | 110.2 | 107.7 | 93.2 | 102.3 |
| leather, leather goods and footwear production | 106.6 | 83.0 | 126.3 | 112.8 | 89.8 | 102.8 |
| timber processing and wooden goods production | 115.6 | 70.8 | 111.1 | 106.9 | 100.7 | 101.8 |
| pulp and paper production; printing and publishing | 107.8 | 82.0 | 106.7 | 99.5 | 107.3 | 91.0 |
| coke and oil products production | 105.0 | 96.3 | 104.7 | 104.6 | 102.3 | 100.4 |
| chemistry industry | 103.7 | 77.6 | 123.8 | 108.0 | 99.4 | 102.8 |
| rubber and plastic goods production | 130.4 | 82.7 | 122.8 | 120.6 | 102.8 | 109.4 |
| other non-plastic mineral goods production | 108.6 | 67.8 | 104.9 | 112.7 | 112.7 | 102.2 |
| metallurgy industry and production of finished metal goods | 108.6 | 72.3 | 118.8 | 109.1 | 104.8 | 102.6 |
| machinery and equipment production | 116.4 | 74.3 | 109.1 | 111.6 | 119.8 | 92.3 |
| electric, electronic and optic equipment production | 93.3 | 56.6 | 130.4.2 | 106.3 | 110.6 | 95.5 |
| transportation vehicles and equipment production | 114.4 | 64.5 | 113.3 | 159.6 | 122.7 | 95.3 |
| other industries | 118.6 | 79.3 | 130.7 | 105.0 | 102.0 | 101.7 |

Source: Federal State Statistics Service.

Despite a sudden slowdown of the economic growth the labor market did not register the reduction of the demand for work force as compared with March of the previous year. In March 2013, according to the preliminary data of the Federal State Statistics Service, the total number of the unemployed is estimated at the level of 4.3mn or 5.7% of the economically active population (in accordance with the International Labor Organization methodology). 1.1mn was registered in the state employment agencies, of which 0.9mn received the unemployment benefits. It should however be noted that March figures exceeded the average level of 2012 figures.

Give the situation in Q1 2013, the RF Ministry of Economic Development lowered the expected GDP growth rate in 2013 to 102.4% (101.7% according to the conservative of the forecast) versus 103.6% that had been accepted earlier, at the same time the estimation of the growth of the investments in fixed assets being lowered to 4.6%, estimation of industries growth – to 2.0%, of manufacturing industries – to 2.9%, the estimation of retail trade turnover – to 4.3%. According to the estimation of the RF Ministry of Economic Development the dynamics of the economic growth was negatively affected by the intensification of the trend towards the export contraction down to 95.6% versus 2012. At the same time import will continue to grow at the rates exceeding the internal demand. The RF Ministry of Economic Development forecasts the growth of the real wages by 104.5% (103.7% in the previous variant of the forecast) and real incomes of the population by 103.0%, the

unemployment rate being 5.6% of the economically active population. The increase in the estimation of the real wages is based on the hypothesis that the level of inflation decreases from 7.1% in Q1 2013 to 6.0–6.5% in H2 of 2013. The growth rates of the labor efficiency is forecast at the level of 102.5% and will remain considerably below the wages dynamics, which will result in the slowdown of profit growth rates in the economy.

The International Monetary Fund has also reconsidered the forecast for the Russian economy growth downward from 103.7% to 103.4% (it should be noted that the IMF estimations is more optimistic than those of Russian experts). According to the IMF data, in 2013 inflation in Russia will make 6.9% (5.6% as estimated by the RF Ministry of Economy Development), and the unemployment rate – 5.5%. At the same time the organization has not changed its expectations regarding the growth of the Russian economy in 2014 – the figure remaining at the level of 103.8%. ●