

## REAL SECTOR OF THE ECONOMY: FACTORS AND TRENDS IN 2013

O.Izryadnova

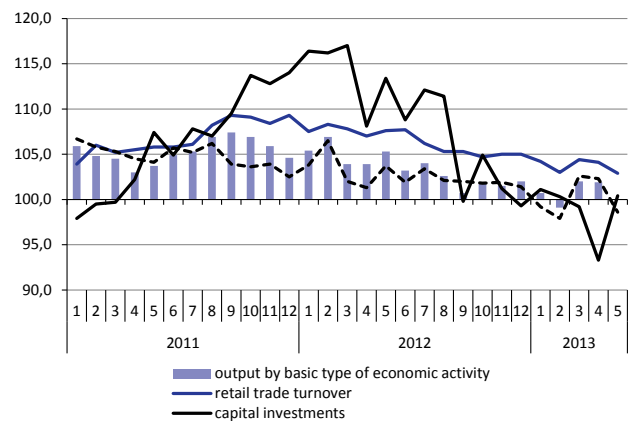
Russia's economy was characterized by lessening of internal and external demand within the first five months in 2013. A drop in industrial output which in May 2013 reached 1.4% against May 2012 had a substantial effect on the domestic market in the current year. Stagnation in the investment sector further lowered production of capital goods and construction materials. The manufacturing output index stood at 95.6% in May 2013 on a year-on-year basis amid severe recession in the machine building industry. Growth rates in retail sales turnover slowed down to 102.9% on a year-on-year basis in response to a fall of 1.3% against May 2012 in real household disposable income. The number of the unemployed in May 2013 remained less than in May 2012.

Macroeconomic situation in January thru May 2013 was governed since Q4 2012 by factors and trends towards slowdown in economic activity. At the same time, growth rates of investment and consumer demand were reported to slow down in the domestic market in May 2013. Capital investment index stood at 100.4% year on year in May 2013 against 113.7% in the preceding year. Retail trade turnover stood at 102.9% (on a year-on-year basis) in May 2013 against 107.6% in the preceding year. Inflation and real household income had an effect on consumer behavior. Consumer price index increased up to 107.4% year on year in May 2013 against 103.6% in the preceding year. Real disposable cash income accounted for 98.7% of the figure in May 2013.

Decline in industrial production had a substantial impact on the domestic market in 2013. Industrial production growth rates have been slowing down since May 2010 when highest values were hit year on year. In May and January–May 2013, industrial production index stood at 98.6% and 100.2% year on year respectively. Manufacturing industry declined in the industrial sector. In May 2013, manufacturing index stood at 95.6% on a year-on-year basis against 107.0% in the preceding year, 102.3% against 99.7% in the mineral production sector, and 101.2% against 100.5% in the production of electric power, gas and water.

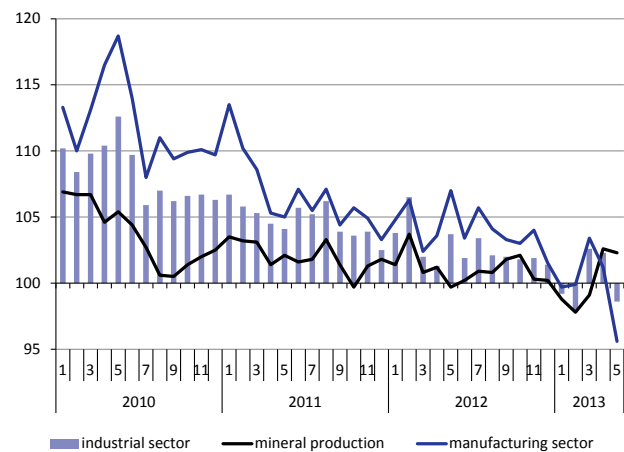
Low investment demand had a downtrend effect on capital goods production. The following dynamics developed in the machine building industry in May 2013 on year-on-year basis: the index of machine and equipment production stood at 97.3%, electrical, electronic and optical equipment production at 91.7%. Reportedly, production in these types of activity has been declining since December 2012 on a year-on-year basis.

Dynamics of production of transport means and equipment is extremely unstable. A decline in growth rates (by 0.7% year on year in Q4 2012 and 4.7% Q1 2013) stopped in April–May 2013. In general, how-



Source: Rosstat.

Fig. 1. Dynamics of output by basic type of economic activity in the years of 2011 thru 2013, on a year-on-year basis



Source: Rosstat.

Fig. 2. Industrial production growth rates by type of economic activity in 2010–2013, on a year-on-year basis

ever, production of transport means stood at 98.2% in January–May 2013 against 2012. Furthermore, transport means production rates are considerably differentiated by specific type of products. Production of

Table 1

## A SHARE OF CONSUMER, INTERMEDIATE AND INVESTMENT GOODS IN TOTAL VOLUME OF IMPORTS

	Goods		
	consumer	investment	intermediate
2008	41.8	23.8	34.4
2009	44.3	19.7	36.0
2010	40.7	19.5	39.8
2011	36.6	21.4	42.0
2012	38.1	24.9	37.0
Q1 2012	40.2	23.0	36.8
Q2 2012	38.0	25.1	36.9
Q3 2012	37.8	25.1	37.1
Q4 2012	36.9	26.1	37.0
2013			
Q1 2013	40.8	22.8	36.4

Source: Rosstat.

vessels, aircrafts and other transport means stood at 82.9% in May and 90.3% in January thru May against 2012. Positive dynamics in production of motor vehicles, trailers and semi-trailers are supported by an increase in production of motor components. Production of motor cars contracted by 18.1% and trucks by 13.7% in May 2013 against May 2012.

A cutback in production in the machine building and construction sectors had a downward impact the demand for construction materials. Metallurgical production and finished metal products stood at 94.2% and construction materials at 97.1% against May 2012.

Output of rubber and plastic products kept growing, by 4.5% in May and 8.3% in January–May 2013 year on year, in the intermediate goods segment.

In May 2013, the group of consumer goods saw a decline of 4.9% year on year in textile and garment industry, 17.8% in production of leather, items and footwear. In May, growth rates in food production stood at 99.3% on a year-on-year basis.

Rapid slowdown in the output of domestic products for the domestic market had an impact on changes in the structure of imports. It was registered in Q1 2013 that a share of imports of consumer goods increased as a share of investment and intermediate goods shrank.

Labor demand has been growing in 2013 as it did in 2012. Unemployment (according to ILO's methodolo-

gy) in May 2013 amounted to 3,9 million persons year on year. (5.2% economically active population); 1 million unemployed persons (1.2% of the economically active population against 1.8% in the preceding year) were registered with employment services. Growth in the working population, decline in general unemployment take place as economy growth rates slow down and wages rise substantially, thereby leading to lower effectiveness in labor force utilization, growth in productions costs, and inefficiency of the existing labor market. Loss-making enterprises accounted for 36.5% of the economy at large in Q1 2013 (35.0% in the preceding year), including 45.6% (41.0% in the preceding year) of the mineral production sector, 36.3% (33.6% in the preceding year) of the manufacturing sector, and 49.9% (48.5% in the preceding year) of the transport sector.

Lack of significant structural changes, sluggish development based on extensive utilization of labor force and fixed assets, a big share of imports in the domestic market resources remain the factors which govern the nature of Russia's economic development. An urgent need to enhance labor productivity as a key factor leading Russia's economy towards sustainable economic growth was highlighted in experts' reports at the St. Petersburg International Economic Forum. ●