

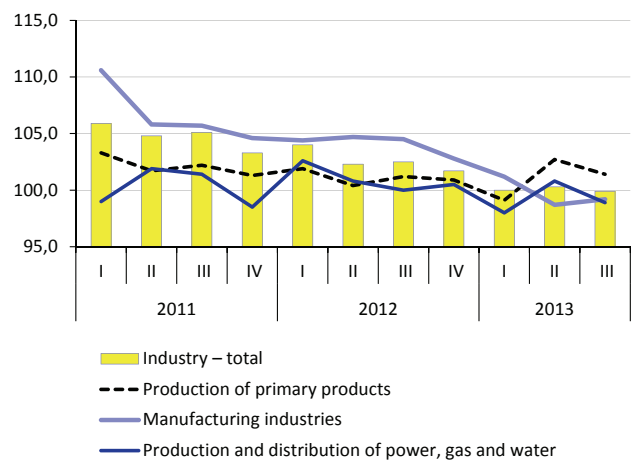
RUSSIA'S REAL SECTOR OF ECONOMY: FACTORS AND TRENDS IN JANUARY–SEPTEMBER 2013

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The results of January–September 2013 point to the continued trend in economic growth slowdown. Within the above period, the industrial production index amounted to 100.1% on January–September 2012, including that of manufacturing industry which was equal to 99.7%. The index of agricultural industry happened to be below the expected mid-year values and was at the level of 101.8% as compared to January–September 2012. In the building and investment complex, a slump intensified by quarters of the current year. In January–September 2013, investments in capital assets decreased by 1.9%, while in the 3rd quarter, by 1.2% on the respective period of the previous year. A dramatic slowdown of the dynamics of GDP takes place with preservation of the trend towards growth in wages and salaries which situation increases the risks of downfall of financial indices of economic activities.

In 2013, the macroeconomic situation is characterized by gradual weakening of the economic dynamics and worsening of growth prospects in the remaining two months of 2013. Stagnation of the Russian economy is justified by simultaneous negative effect of external and internal factors. The domestic market is affected by reduction in the volumes of domestic output of goods and services for internal consumption, as well as slowdown of growth rates of import supplies. In January–September 2013, the volume of industrial output increased by the mere 0.1% against the respective period of the previous year. It is to be noted that in the past five months of 2013 in manufacturing industries which are mainly aimed at the domestic market negative annual and quarterly growth rates were registered as compared to the respective periods of the previous year. In January–September, a slump in manufacturing industries amounted to 0.3%, while in September, to 0.7% as compared to the respective periods of 2012. From the 2nd quarter of 2013, weak growth in production of primary products started to affect the industrial dynamics which situation was justified to a great extent by growth in fuel reserves on the domestic market and in traditional importer-countries in expectation of the beginning of the heating season with unfavorable climate forecasts made for the 2013–2014 winter.

Other real sector industries had a negative effect on the general economic dynamics, too. In September, the output index in agricultural industry was much below the expected values and amounted to 98.6% and 101.8% on September 2012 and January–September 2012, respectively. Due to slowdown of solvent demand, during the nine months of 2013 dynamics of the volumes of freight turnover fell by 0.4%, including railway carriage which accounted for a larger portion of freight carriage (a 2.6% drop on January–September 2012).



Source: Rosstat.

Fig. 1. Dynamics of individual types of economic activities in industry in the 2011–2013 period as % of the respective quarter of the previous year

Further drop in investment activities throughout this year has had a negative effect on economic processes in the Russian economy. In January–September, in the building complex the volume of work decreased by 1.1% against the respective index of the previous year. In the 3rd quarter, a drop in investments in capital assets amounted to 1.2%, while generally in January–September 2013, to 1.9% on the respective period of 2012. Declining financial results of enterprises and entities increased limitations as regards financing of investments in capital assets. In January–August 2013, the consolidated financial result as regards the economy as a whole amounted to 82.1% of the index for the respective period of the previous year, including that in production of primary products (97.0%), manufacturing (70.5%), production and distribution of power, gas and water (85.3%) and transport (86.8%).

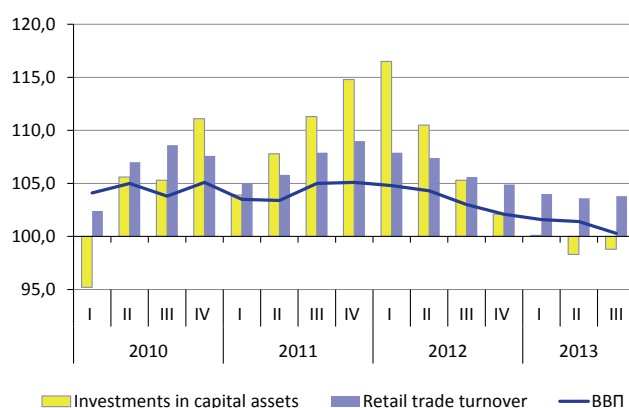
With the existing dynamics of the results of financial activities and scaling down of investment programs, it is hard to expect a burst of investment activities with large companies in the last quarter of 2013.

Worsening of the investment prospects coincided with growth in the net capital outflow for 9 months of 2013 to \$48.2bn against \$46.4bn a year earlier. It is to be noted that in nine months of 2013 a drop in the current account balance to \$29.5bn against \$61.6bn in the same period of 2012 was registered. A sudden reduction of the current account balance in January–September 2013 as compared to the respective period of 2012 was related to growth in the import of goods and services by \$8.1bn and \$16.6bn, respectively.

On the domestic market, the main factor which restrained the negative effect of output shrinkage in industry and the building and investment complex was the retail trade and the sector of paid services to households. In January–September 2013, growth in the volume of retail trade and paid services to households amounted to 3.9% and 2.4%, respectively as compared to the same period of the previous year. In the 3rd quarter of 2013, growth in retail trade turnover in food products and non-food products amounted to 3.2% against 2.2% a year earlier and 4.1% against 8.5%, respectively.

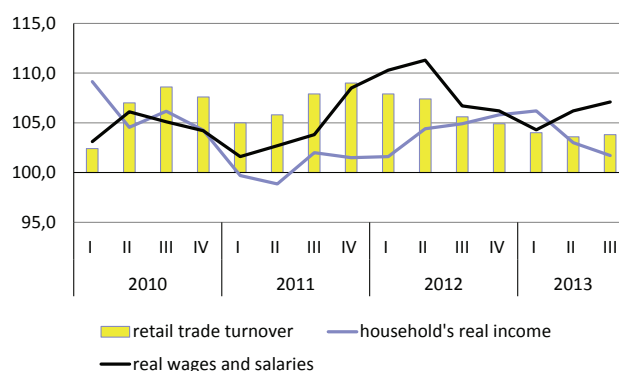
A positive effect on the economic dynamics of growth in retail trade turnover related to the policy of adjustment of the labor remuneration in the state sector with average economic indices has dramatically diminished this year. In January–September 2013, households' real income and real wages and salaries increased by 3.6% and 5.9%, respectively, as compared to the same period of the previous year. From the 2nd quarter of 2013, the speed-up of the dynamics of real wages and salaries turned out to be insufficient enough to motivate growth in retail trade turnover in May–September 2013. In addition to the above, from the 2nd quarter of 2013 slowdown of growth rates of households' real income to 101.7% in the 3rd quarter of 2013 against the respective period of the previous year – which slowdown had a negative effect on the consumer market situation during that period – was registered. It is to be noted that growth in retail trade turnover in the past two years was justified to a great extent by growth in consumer lending and slowdown of growth rates of lending to individuals which was registered from October 2012 and resulted in slowdown of growth rates of the consumer market.

The analysis of the main indices of production and utilization of GDP in the first six months of 2013 shows that the main factor behind low economic growth



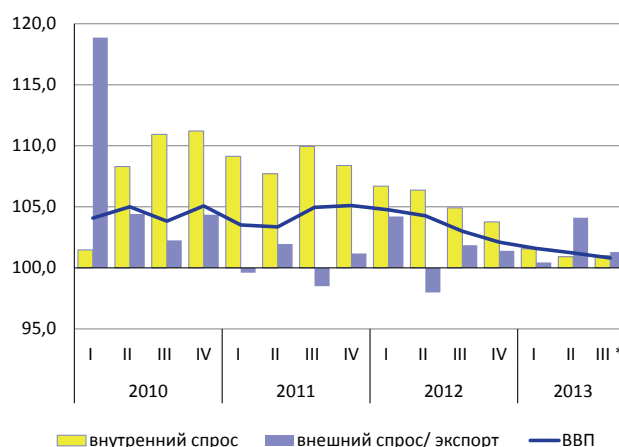
Source: Rosstat.

Fig. 2. Growth rates of GDP, investments in capital assets and retail trade turnover in the 2011–2013 period as % of the respective quarter of the previous year



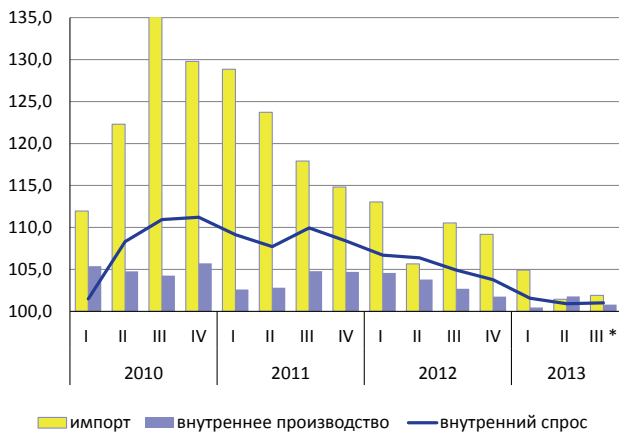
Source: Rosstat.

Fig. 3. Growth rates of households' real income, real wages and salaries and retail trade turnover in the 2011–2013 period as % of the respective quarter of the previous year



Source: Rosstat.

Fig. 4. Dynamics of GDP by the component of the domestic and external demand in the 2010–2013 period as % of the respective quarter of the previous year

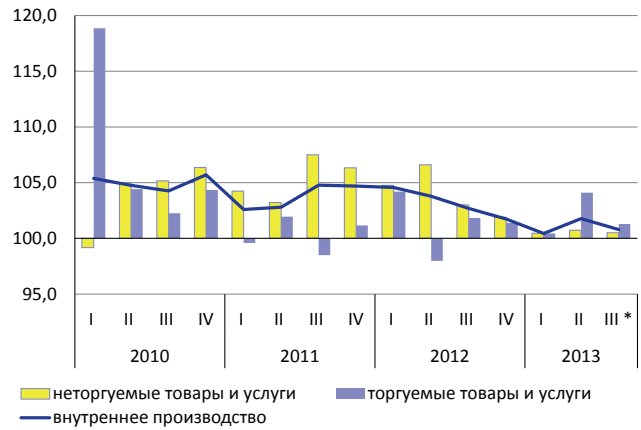


Source: Rosstat.

Fig. 5. The dynamics of the domestic demand by the component in the 2010–2013 period as % of the respective quarter of the previous year

rates in 2013 is slowdown of the rates of the domestic demand from the 4th quarter of 2011. In 2013, the rates of slowdown of the domestic demand sped up dramatically and only the export of goods and services became a factor which permitted to preserve the positive dynamics of GDP.

It is to be noted that the International Monetary Fund revised downward for the third time the forecast of Russia’s GDP growth rates to 1.5% and increased the inflation rate forecast to 6.2% in 2013. The Russian economy exhausted the growth reserves



*The preliminary data

Source: Rosstat.

Fig. 6. The dynamics of domestic production by the component in the 2010–2013 period as % of the respective quarter of the previous year

and is in need of structural reforms. The analysis of functioning of the Russian economy in 2013 shows that the domestic market situation is determined by the advanced rates of the import as compared to the domestic production (Fig. 5). Sudden slowdown of domestic production is justified both by low competitiveness of domestic goods and services as compared to foreign ones and the low level of efficiency of production in the segment of non-tradable goods and services as compared to export-oriented sectors of the economy.