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## Real Economy: Trends and Factors

*In July-August of the current year the economic dynamics by the basic types of economic activities continued to weaken. Starting with June of the current year the retail trade turnover and investments in fixed assets growth rates in annual terms have been observed to slow down. In such a situation the acceleration of the real incomes of the population growth rates by 7.2% and real wages – by 7.8% versus August 2011 is worrying. The increase in the production costs due to the growth of expenses for labor remuneration leads to the worsening of the enterprises' financial results.*

This year the macroeconomic situation is characterized by a gradual decrease of the growth rates. In Q1 2012 the GDP physical volume index made 104.9%, in Q2 2012 – 104.0% and as a result of H1 2012 – 104.5% versus the corresponding periods of 2011. It is the slackening of the investments in fixed assets dynamics, retail trade and foreign trade turnover as compared with the corresponding period of the previous year that act as the main factors determining the conditions for the economic development starting with Q2 2012.

The changes in the situation at the world markets have resulted in the contraction of the Russian export growth rates both in the terms of physical and value volume, the exhaustion of the low base effect and starting ruble exchange rate weakening resulted in the slowdown of the import growth rates. In August 2012 as compared with the corresponding period of 2011 the foreign trade turnover reduced by 1.7%, export –by 0.9%, import – by 3.0%.

The situation at the consumer and investment markets is complex. Starting with June of the current year the retail trade turnover growth rates have been decelerating. In August 2012 the index of retail trade turnover made 104.3% versus the corresponding level of the previous year, being 100.8% for foodstuffs and 107.4% for non-food goods.

In June-August 2012 the dynamics of the investments in fixed assets and the workload in construction was observed to weaken, the indices in the sphere of housing construction were subject to sudden fluctuations. In August 2012 the growth rates of the investments in fixed assets made 102.3% in annual terms as compared with 107.0% in August 2011. The workload in construction remained practically at the level of August of the previous year.

The inertial development of the processes in July-August of the current year resulted in further weakening of the economic dynamics as broken by the basic types of economic activities. In August 2012 the industrial production index made 102.1% versus August 2011 as compared with 106.2% a year ago, being 100.8% versus 103.3% in minerals extraction, 104.1% versus 107.1% in manufacturing industry.

The existing situation made it necessary to specify main parameters for the development of the Russian economy till the end of 2012, which served as the basis for socio-economic development forecast for 2013 and for the planning period of 2014-2015. In accordance with the estimations of the RF Ministry of Economic Development the slackening of the economic development is to be expected as a result of consumer and investment demand growth rates slowdown and the decrease in the net export as compared with the corresponding period of the previous year. The acceleration of the industrial production growth forecast for H2 2012 as compared with H2 2011 does not compensate for the weakening of the demand in the construction complex and recession in the agriculture. In H2 2012 the growth of the GDP is

estimated to be at the level of 102.7% versus the corresponding period of the previous year, making 103.5% on the whole over 2012.

Up to the end of 2012 the estimation of social parameter of the development are fairly optimistic. The situation at the labor market is stabilizing: the number of the unemployed in the economy will recover to the pre-crisis level of 2007, the general unemployment will lower to the decade minimum of 4.3m or 5.9% of the total number of the economically active population.

According to the forecast of the RF Ministry of Economic Development, as compared with the previous year in 2012 the growth of the real incomes will accelerate to 3.0%, of real wages – to 9.1%. The anticipating growth of the real wages versus labor productivity will result in the expansion of the labor remuneration proportion in the GDP to 24.3%.

Table 1

**Estimation of the Main Indices of Economic Development in 2012, as % versus the corresponding period of the previous year**

	2011			2012		
	Year	H1	H2	Year	H1	H2
GDP	104.3	103.7	104.9	103.5	104.5	102.7
Industrial production index	104.7	105.3	104.1	103.6	103.1	104.1
Manufacturing industry index	106.5	108	105	104.9	104.5	105.3
Agriculture production index	122.1	100.7	129	95.6	104.2	92.4
Investments in fixed assets	108.3	102.7	111.3	105.5	111.6	102.4
Workload in construction	106.0	101.2	110.8	-	105.4	-
Implementation of residential floor area	106.6	96.3	112.6	106.3	101.9	108.5
Retail trade turnover	107	105.4	108.4	106.1	107.1	105.1
Volume of paid services rendered to the population	103	103.4	102.6	103.6	104.2	103.1
Foreign trade turnover	130.3	134.7	126.9	103.7	105.7	101.9
Export	130.3	130.2	130.7	102.3	106.7	98.4
Import	130.2	142.8	121.3	105.8	104.1	107.3
Real disposable incomes of the population	100.8	99.4	102	103	103	103
Real wages	102.8	102.1	105	109.1	110.7	107.5
Consumer prices index at the end of the period, over the period	106.1	105	101.1	107	103.2	103.7
Average price for oil grade Urals, \$/barrel	109.3	108.2	110.5	109.0	111.8	106.2

*Source:* RF Ministry of Economic Development “Forecast for socio-economic development of the Russian Federation for 2012 and for the planning period of 2013 and 2014”

For the purposes of the parameters for the federal budget for 2013-2015 development the moderately optimistic scenario (2) is suggested; it is based on the factors increasing the competitive ability of the Russian economy, strengthening of the import substitution trend, improvement of the investment climate together with moderate growth of the state expenditures for infrastructure and human capital development. In spite of the gradual increase in the quality of the economic growth the general dynamics is expected to be considerably below the pre-crisis period. In 2013-2015 the growth of the GDP is estimated to be at the level of 3.7–4.5% and investments in fixed assets – at 7.2–7.9%<sup>1</sup>.

<sup>1</sup> Conservative scenario (1) suggests retention of low competitive ability as compared with the import and reserved recovery of the investment activity, the real state expenditure for the development decreasing. The scenario assumes stagnation of

Table 2

**Main Indices of the Forecast According to the Moderately Optimistic Scenario (2), as  
Percentage versus the Previous Year**

	2011	2012	2013	2014	2015	2015 versus 2011
Consumer prices index, growth rates	106.1	107	105–105	104–105	104–105	
Gross domestic product, growth rate	104.3	103.5	103.7	104.3	104.5	117
Industrial production index	104.7	103.6	103.7	103.7	103.7	115.5
Agriculture production index	122.1	95.6	106.4	102.4	102.8	107.1
Investments in fixed assets	108.3	105.5	107.2	107.3	107.9	130.9
Volume of retail trade, growth rate	107.0	106.1	105.4	105.8	105.8	125.2
Volume of paid services rendered to the population, growth rate	103	103.6	104.7	105.6	105.9	121.3
Real disposable incomes of the population	100.8	103	103.7	105.2	105.3	118.2
Real wages	102.8	109.1	103.7	105.5	105.9	126.3
Foreign trade turnover	130.3	103.7	99.8	106.1	106.0	116.6
Export	130.3	102.3	93.6	104.3	104.5	104.4
Import	130.2	105.8	109.5	108.5	108.0	135.8
Economically active population	99.5	99.7	99.7	99.6	99.4	98.5
Employed in the economy	100.1	100.9	99.7	99.6	99.4	99.4
Level of the unemployment versus the economically active population	6.9	5.9	5.9	5.9	5.9	
Labor efficiency	104.1	102.6	104.0	104.7	105.1	117.5

Source: RF Ministry of Economic Development

The hypothesis of the acceleration of the internal demand versus the GDP dynamics is fundamental for the forecast for 2013-2015. The structural changes in the investments in fixed assets are directed to the gradual expansion of the investment in manufacturing industries and types of economic activities connected with services rendering. Even though the proportion of the investments in fixed assets in the GDP will rise to 22.3% by 2015 and exceed the pre-crisis level, these funds, according to the forecast, are insufficient to thoroughly modernize the economy. The structural shifts and economy growth rates being as forecast in 2013-2015 the saturation of the investment demand will still be supported by the anticipating growth rates of

the state investment demand and real wages of public sector employees and monetary allowance for the military. In 2013-2015 annual economy growth rates are estimated to be at 2.7-3.3%, investment in fixed assets growth rate – at 5.0-5.9%.

Accelerated growth scenario (3) suggests intensification of production factors and increase in labor productivity by 1.5 times by 2018 versus the level of 2011. Average annual economy growth rates in 2013 are in the range of 4.6-6.4%, investments in fixed assets – 8.5-13.1%. The scenario is characterized by macroeconomic imbalance and high vulnerability to the external shocks.

investment goods import as compared with the domestic production. Besides, the domestic production will still be dependent on the import of intermediate goods.

The prospects of the Russian economy development in the mid-term run will be determined by the parameters for the improvement of the competitive ability, increase in the efficiency of factors of production use and the lowering of the costs. In the environment of the expected employment contraction the growth of the economy is possible when the factors of production are used more efficiently. However, the forecast still maintains the trend for the anticipating growth of labor remuneration versus labor efficiency and the increase of the expenses for labor remuneration proportion in the GDP.