

## REAL SECTOR OF THE ECONOMY: FACTORS AND TRENDS IN FEBRUARY 2014

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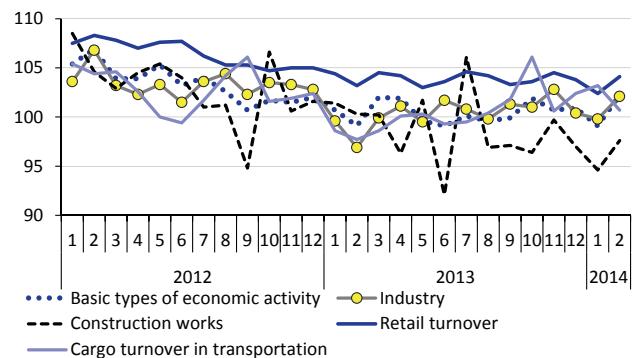
*In February 2014, industrial production increased by 2.1% on an annualised basis, including a 3.4% increase in manufacturing. However, the production of machines and equipment decreased by 11.4%, construction materials, by 2.0%, and construction works, by 2.4% in annual terms. Demand for services slowed sharply. In January-February 2014 the indices of retail turnover and paid services provided to the public were 103.2% and 101.0% of the corresponding figures for the previous year, whilst, in the year before that, these indicators had been 0.6 and 3.3 percentage points higher.*

The situation in the domestic market in February 2014 was determined by the simultaneous slowdown of consumer demand and a worsening fall in the investment market.

In annual terms, the index of investments in fixed assets for February was 96.5% and in January-February 2014, 95.0% of the figure for the corresponding period of the previous year. The growth in the volume of construction works has been declining since August 2013, and in February of this year was 97.6% of the figure of January-February 2013 (and 96.2% in annualised terms). When interpreting the growth, by 34.3%, in the commissioning of residential property in January-February 2014 as compared with the previous year, one should take into account the influence of the atypical (for the Russian economy) decline in residential construction in December 2013, which caused a postponement of commissioning until the beginning of the current year.

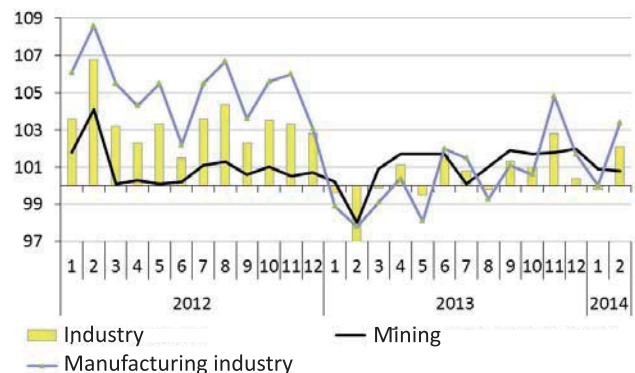
Retail turnover and paid services to the public in January-February 2014 was 103.2% and 101.0% of the corresponding indicators of last year, while in the year before that, these indicators had been 0.6 and 3.3 percentage points higher. Consumer behaviour was affected both by a decrease in real disposable income and by ruble depreciation. Disposable income decreased in January-February 2014 by 0.3% as compared with January-February 2013, although the equivalent real salaries had increased by 5.6%. On an annualised basis the growth in real salaries in February reached 6.0% and exceeded the indicator for February 2013 by 2.7 p.p. The major driver of the decline in consumer activity was a slowdown in lending to individuals.

At the start of the current year a weak growth in industrial production was observed. In February and in January-February 2014 the industrial production index stood at 102.1% and 100.9% of the respective indicators for last year. In industry, simultaneous growth was recorded in both the manufacturing and mining sectors. These results were significantly affected, on the



Source: Federal State Statistics Service (Rosstat).

Fig. 1. Dynamics of physical volume of output for key economic activities in 2012–2014, as % of the corresponding period of the previous year



Source: Federal State Statistics Service (Rosstat).

Fig. 2. Growth in industrial production by types of economic activity in 2012–2014, as % of the corresponding period of the previous year

one hand, by the low base of last year, when the deepest decline in output for these types of activity had been observed in February and, on the other hand, by a gradual recovery in the positive dynamics in manufacturing industry since September 2013, which had created conditions for overcoming the crisis in manufacturing activity. In February 2014 the manufacturing

production index in annual terms was 103.4% versus 97.8% in the previous year, in mining, 100.8% versus 98.0% and in electric power, gas and water production, 99.7% versus 90.3%.

The dynamics of manufacturing activity were considerably differentiated by type of economic activity. Low investment demand led to lower production of capital goods. In February 2014, in the complex of machinery production facilities the production of machines and equipment was 88.6% of the figure for the corresponding period of last year, while the production of electric, electronic and optical equipment stood at 93.5%.

Production volumes of vehicles and transportation equipment in February 2014 reached 113.2% and in January-February together 108.9% of the indicator for the corresponding period of last year, while for the production of cars, trailers and semi-trailers the figures were 95.1% and 87.8%, respectively. The output of cars in January-February was 91.8% and of trucks, 72.9% of the corresponding figures for 2013. In 2013, as compared to the previous year (information from OJSC ASM-Holding), the sales of cars in the Russian Federation decreased by 8.8% (in 2012 there had been a growth of 10.2%) and of trucks, by 15.2% (as compared with a 9.5% growth in 2012). Despite the decline in sales the Russian government plans to reconsider its decision on the feasibility of resuming its programme of preferential car loans once it has assessed the results of developments in manufacturing and the market for automotive equipment during the first quarter of 2014.

A decline in production in the machine-building and construction-investment complexes resulted in a decline in demand for construction materials. Metallurgical production and the production of finished metal goods was 99.1% of the figure for January-February 2013, and of construction materials, 96.6%.

The intermediate goods sector saw a growth in the production of oil products in February to 105.4% as compared with February 2013, versus 99.7% of that in the year before. This was due to an increase in the supply of oil for refining in February, by 4.4% in annual terms. The production of petrol in February 2014 stood at 98.6%, of diesel fuel at 109.0% and of residual oil, 104.4% compared with February 2013.

In the chemical industry and in the manufacture of rubber and plastic goods, the January-February and February output growth remained unchanged, compared with the corresponding periods of last year. In chemical production, the positive dynamics of this year are being maintained due to a growth in the output of agrochemical products; the production of pharmaceutical products in February this year was 103.7% of the figure for February 2013.

In February 2014 the textile and garment industry demonstrated accelerated growth to 11.2%, the manufacture of leather, leather goods and footwear rose by to 4.3% while the manufacture of household appliances rose to 17.4% compared with the corresponding period of last year. The production of food products in January-February increased by 0.4% as against 0.2% in the previous year.

At the start of the current year the tendency towards an increased workforce requirement continued. As a result of the increase in the number of vacancies submitted to employment agencies the tension coefficient per 100 vacancies decreased to 77.8 in January this year (versus 88.0 last year). The number of unemployed individuals (calculated using the ILO method) in February this year decreased by 108,000, to a total of 4.2 million (5.6% of the economically active population); 0.95 million were registered unemployed with employment agencies (1.2% of the economically active population versus 1.5% last year). We should note that the increase in the number of individuals employed in the economy and the reduction in the overall level of unemployment occurred alongside low rates of economic development and a considerable increase in salaries, which is evidenced in the growth of production costs.

In January 2014 the net financial result for organisations was 89.4% of the relevant figure for last year (+Rb 532.0 billion). We should remember that in January 2013 a reduction in this indicator of 17.1% had also been recorded.

The net financial result for industry as a whole in January 2014 was approximately equal to that of last year level, but in contrast to the situation in January 2013, an increase in the contribution of natural resources to 45.1% of the total indicator for the economy could be observed, compared with 23.1% in the previous year. In January 2014 the net financial result for the mining industry was Rb 229.8 billion (169.3% of the figure for January 2013), whilst in manufacturing it was Rb 26.5 billion (21.2%). With the low demand for transportation services, the net financial result in this sector for January decreased by 65.4% compared with January 2013. The financial result in the construction industry was 18.5% while in real estate transactions it was 66.5% of the figure for January 2013.

The downward trend in the profitability of manufacturing and in the share of profits in GDP together with low investment activity has meant that the Russian Ministry of Economic Development has estimated the GDP growth rate for 2014 as being no higher than 101.8–101.9%, with inflation increasing to 7% in annual terms by mid-2014.

The World Bank has reduced its forecast for economic growth in Russia to 11.1% (the optimistic sce-

nario) which is two times lower than had previously been forecast. According to the pessimistic scenario (if the political situation around Ukraine becomes aggravated) the decline in GDP could reach 1.8%, with

a slowdown in consumption growth to 100.8–101.1% and increased capital outflow. The growth rate forecasts for the Russian economy in 2015 have been reduced from 2.7% to 1.3–2.1%. ●