

THE REAL SECTOR OF THE ECONOMY IN THE 1ST QUARTER OF 2014

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In the 1st quarter of 2014, economic dynamics was determined by growth in consumer demand and a drop in investment demand. On the basis of the results of the 1st quarter of 2014, investments in capital assets fell by 4.8% on the respective period of the previous year with simultaneous reduction of volumes of jobs in building and production of capital goods. In the 1st quarter of 2014, growth rates of retail trade turnover amounted to 103.5%, which is 0.5 p.p. lower than the respective index of 2013. In January–March 2014, recovery of industrial growth thanks to a 2.4% increase in the output of manufacturing industries as compared to January–March 2013 had a positive effect on the economic situation. As of the end of March 2014, offices of the state employment service registered 941,000 persons as unemployed which is 13.2% lower as compared to March 2013.

According to the preliminary estimates of the Ministry of Economic Development of the Russian Federation, in the 1st quarter of 2014 GDP growth rates amounted to 0.8%. In the 1st quarter of 2014, the nature of economic growth was determined by simultaneous weakening of both external and domestic demand. The prevailing trend of reduction of investment demand which trend was formed as early as the second half of 2012 and justified by the impact of structural and institutional limitations had a rather adverse effect in that period on the economic dynamics. In addition to the above, in 2014 the situation in the investment sector was made even worse due to higher risks related to geopolitical factors.

According to the data of the Central Bank of Russia, in the 1st quarter of 2014 the outflow of capital amounted to \$50.6bn with the capital outflow index for the entire 2013 being equal to of \$59.7bn. In January–March 2014, the withdrawal of capital by the non-banking sector amounted to \$31.7bn and exceeded by

200% the index of the respective period of the previous year. With reduction of participation of the private sector and modest financing of investments at the expense of budget funds which is typical of the beginning of the year, on the basis of the results of January–March 2014 investments in capital assets and the volume of jobs in building amounted to 95.2% and 96.9% of the respective indices of the same period of the previous year, respectively. Infrastructure limitations in the investment area can be overcome with a simultaneous effective utilization of budget funds of development institutes affiliated with the state and private investors.

Early in 2014, slowdown of growth rates of consumer demand which began in the second half of 2012 continued. In the 1st quarter of 2014, growth rates of the retail trade turnover amounted to 3.5% (7.0% in 2012 and 4.0% in 2013) on the respective period of the previous year. Prevalence of a high rate of inflation and a drop in the growth rates of households' real income

Table 1

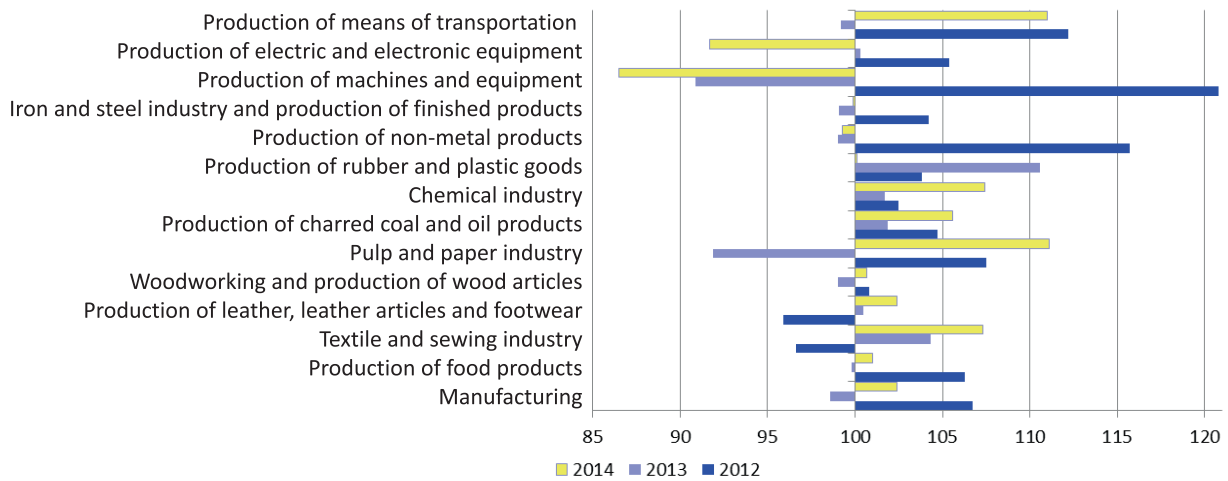
GROWTH RATES OF THE MAIN ECONOMIC INDICES IN THE 1ST QUARTER OF 2010–2014, AS % OF THE RESPECTIVE PERIOD OF THE PREVIOUS YEAR

	2010	2011	2012	2013	2014
GDP	103.5	103.5	104.8	100.8	100.8*
Industry	108.4	105.0	104.5	98.8	101.1
Production of primary products	104.9	101.4	102.0	99.7	100.8
Manufacturing	111.5	109.7	106.7	98.6	102.4
Investments in capital assets	95.2	99.2	116.5	100.1	95.2
Retail trade turnover	102.2	105.0	107.9	104.0	103.5
Households' real disposable cash income	108.1	100.0	101.6	105.6	97.6
Real wages and salaries	103.1	101.6	110.3	104.5	104.2
Export	161.1	122.8	116.3	95.4	98.1**
Import	118.8	142.4	112.1	103.7	92.9**
The total number of the unemployed	96.3	85.7	85.3	96.2	95.2

* the initial data of the Ministry of Economic Development.

** the initial data of the Central Bank of Russia.

Source: The Rosstat.



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Fig. 1. Indices of production by the main types of manufacturing industries in the 1st quarter of 2012–2014, as % of the respective period of the previous year

affected the consumer behavior. In March 2014, as compared to the same period of the previous year the consumer price index amounted to 106.9% (107.0% a year before). The 2013 trend of higher diversification of households' income, greater poverty and slowdown of growth rates of social payments and households' income from property and business activities had a serious impact on the dynamics of households' real income. In the pattern of households' income, the unit weight of wages and salaries has grown. In March 2014, the indices of households' real income and real wages and salaries amounted to 93.2% and 103.1% year on year, respectively (in March 2013 they were equal to 109.1% and 105.1%, respectively).

Households' higher inflation expectations have resulted in a reduction of the volume and share of savings in households' income and active conversion of households' accumulated savings into a foreign currency. In such a situation, all other factors being equal the volume of potential investment resources at the expense of households' funds is decreasing and a possibility to speed up the growth rates of consumer demand is getting smaller.

Throughout the second half of 2012 and the entire 2013, the Russian economy demonstrated a slowdown of growth rates of business activities virtually by all the types of economic activities. In February–March 2014, industrial growth recovered as compared to the 2013 index. On the basis of the results of the 1st quarter of 2014, industrial output came to the level of the respective period of 2012. In March 2014, recovery of growth rates year on year was registered by all the major types of activities in industry: production of primary products – 100.8% and manufacturing – 103.5%. Higher volumes of oil refining at domestic plants – it made up for a 5.0% reduction of the export of Rus-

sian hydrocarbons as compared to the 1st quarter of 2013 – had a considerable effect on the dynamics of the primary sector.

A decrease in production of capital goods was determined by the downward trend of investment activities. In March 2014, as compared to the same period of the previous year the index of production of machines and equipment amounted to 84.6%, while that of production of power and electronic and optical equipment, to 93.4%. It is particularly alarming taking into account the fact that output gap in the above sectors was observed throughout the entire 2013.

In the 3rd quarter, as compared to the previous year recovery of growth rates of production of means of transportation and equipment was observed. In March 2014, the index of production of means of transportation amounted to 114.2% and 111.0% on that of March 2013 and January–March 2013, respectively. It is to be noted that shipbuilding, aircraft and spacecraft building and rolling-stock building accounted for the main portion of growth in that sector (126.8% on the index of the 1st quarter of 2013) with output gap in the automotive industry (92.4%). The dynamics of the automotive market is affected both by a drop in demand and a decrease in production of cars in an industrial assembly mode due to higher costs of import parts and utilities.

The dynamics of the consumer complex of the industry demonstrates output growth which situation is probably related to some revitalization of import substitution processes as a result of depreciation of the ruble exchange rate and a drop in import efficiency. In March 2014, the index of textile and sewing production, that of production of leather, leather articles and footwear and that of production of food amounted to 103.6%, 103.7% and 101.8%, respectively, as compared to March 2013.

In March 2014, as a year before in the intermediate goods segment growth in output year on year continued.

In March, on the labor market of the Russian Federation growth in demand on workforce was registered. As compared to March 2013, the number of gainfully employed population increased by 92,000 persons, while the number of the unemployed fell by 228,000 persons. According to the preliminary results

of the Rosstat's employment survey, in March 2014 the total number of the unemployed was estimated at the level of 4.0m people or 5.4% of the gainfully occupied population (in accordance with the methods of the International Labor Organization). As of the end of March 2014, offices of the state employment service registered 941,000 persons as unemployed which is 13.2% lower as compared to March 2013. ●