

THE REAL SECTOR OF ECONOMY IN JANUARY–MAY 2014: FACTORS AND TRENDS

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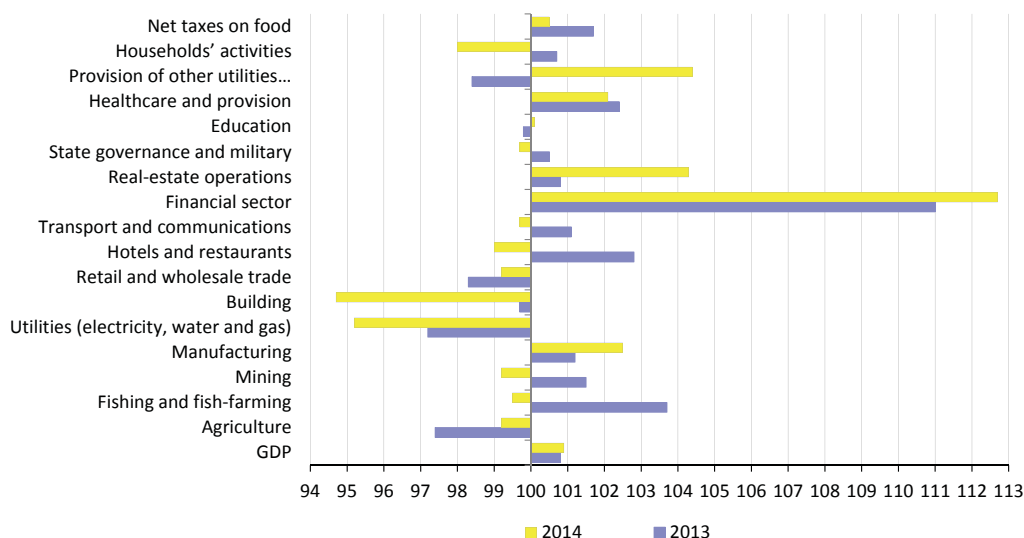
In the first five months of 2014, the economic situation was determined by slowdown of growth rates of consumer demand and a drop in investments. In January–May 2014, investments in capital assets decreased by 3.8% against the index of the respective period of the previous year. In January–May 2014, the retail trade volume increased by 3.1% against 3.9% a year earlier. A positive contribution to the dynamics of the economic development is made by recovery of output growth in manufacturing. In January–May 2014, manufacturing output index amounted to 103.2% against 98.9% a year before with a high differentiation of production rates in different sectors which situation is primarily justified by prevalence of negative trends in production of capital goods.

In the beginning of 2014, the economic and political uncertainty in the country intensified the drop in investment demand. In Q1 2014, the effect of that process was reduced because of a fairly high consumer demand which was justified by growth in inflationary expectations due to depreciation of the ruble. Within the same period, another factor which underpinned GDP growth rates at the level which was not lower than the index of the previous year was growth in contribution of the net export which situation is related to higher rates of reduction of the import against the dynamics of deliveries of Russian goods to foreign markets. The analysis of the dynamics and the pattern of GDP in Q1 2014 shows that the dynamics of economic growth was negatively affected by reduction of the rates of production of the gross added value (GAV) in mining, utilities (electricity, water and gas), building industry and agriculture with positive growth in GAV in manufacturing. A contribution by such industries

as trade and transport to the dynamics of economic growth decreased, too. Indices of the financial sector and real-estate operations, as well as such socially important types of activities as education and healthcare grew at an advanced rate against GDP.

After a drop in January, in February–May 2014 the industry indices demonstrated growth year on year. In May 2014, year on year growth rates of industrial production, manufacturing and mining amounted to 2.8%, 4.4% and 0.9%, respectively.

In February–May, industries oriented at the consumer demand grew at a faster rate than manufacturing in general. In May, production of food products and textile and sewing industry rose by 7.2% and 18.3% year on year, respectively. Despite the fact that in May production of leather and footwear amounted to 99.3% year on year against the index of 2013, generally in January–May 2014 the output in that segment of business activities increased by 3.2% as compared



Source: The Rosstat

Fig. 1. Indices of the physical volume of the produced GDP and the gross added value by the type of economic activities in Q1 2013–2014 as % of the respective period of the previous year

Table 1

EXPORT AND IMPORT OF HIGH-TECH PRODUCTS IN Q1 2014

	Export		Import	
	Million USD	% of the respective period of the previous year	Million USD	% of the respective period of the previous year
High-tech products	2950	59.8	8468	94.0
including: aerospace industry goods	1107	53.9	2001	155.2
Office computer equipment	124	182.4	1320	88.3
Electronic and telecommunications equipment	215	94.3	2428	84.7
pharmaceuticals	52.2	96.1	697	74.6
Scientific instruments	301	152.2	883	69.0

Source: The Rosstat.

to the respective period of 2013. It can be supposed that in the above types of business the economic activity was supported by means of utilization of the import substitution potential. In the pattern of commodity resources of the retail trade turnover, in Q1 2014 the share of domestic products amounted to 57.0%, including food products (35.0%), though in the pattern of import in Q1 2014 the unit weight of the import of consumer goods in the total volume of import amounted to 38.4% and remained virtually at the level of the index of 2013.

To appreciation of prices as a result of depreciation of the ruble, a complex of intermediate demand industries with a high share of export-oriented industries reacted by growth in output. If in May 2013 the price index in manufacturing amounted to 102.4% year on year, in May 2014 it was equal to 105.9%. In January–May 2014, there was growth in output of petroleum (7.2%), the pulp and paper industry (7.7%), the chemical industry (3.6%) and the iron and steel industry (2.0%). It is to be noted that with a relatively small share of the import in the cost of production in the above types of activities, profitability of production did not change much. In the pulp and paper industry and the iron and steel industry, the profitability of the sold goods increased as compared to the same period of 2013, while in production of petroleum and the chemical industry, decreased by 1 p.p.

Growth in the output of intermediary demand goods resulted in structural changes in import: in Q1 2014 the unit weight of intermediary goods in the total volume of import fell to 37.4% against the 38.2% in 2013.

There was a dramatic reaction to changes in the pricing situation on the part of investment complex industries due to appreciation of prices on imported products of intermediate and ultimate consumption. In May 2014, the index of production of machinery and equipment amounted to 94.7% year on year, while that of production of electric, electronic and optical

equipment, to 97.1% as compared to May 2013. The situation in the above areas is made even worse due to a drop of 6.0% in the volume of import of high-tech products, including electronic and communication equipment (15.7%) and office computer equipment (11.7%) as compared to Q1 2013.

In May 2014, transport equipment manufacturing increased by 18.3% year on year which can be explained by growth of 31.5% in manufacturing of ships, aircraft, spacecraft and other transportation vehicles, while automotive equipment production fell by 6.0%. The military-industrial complex and the nuclear power industry produce goods which are traditionally in high demand on the global market, however, in Q1 2014 the export of goods of the aerospace industry amounted to just over 50% of the index of the previous year with dynamic growth in import which exceeded by 100% the volume of the domestic production.

The main component which underpins economic growth is households' consumption. In May 2014, the real disposable cash income increased by 5.8% year on year with a drop of 0.3% a year before. Growth rates of real wages and salaries increased from 104.7% in May 2013 to 105.0% in May 2014. In January–April, the real amount of the granted pensions rose by 2.5% as compared to the respective period of 2013.

However, the dynamics of consumer demand is characterized by gradual slowdown. In May 2014, the growth rates of the retail trade volume and the volume of paid services to households amounted to 2.1% year on year and 0.6%, respectively (3.4% and 0.9%, respectively, a year ago). Slowdown of retail trade growth rates is justified by a year on year decrease of 0.3% in demand on food in May with a 4.0% increase in growth rates of the market of nonfood products. It can be justified by growth in prices on food products in May by 6.9% from the beginning of the year (4.7% in December–May 2013) with moderate growth in prices on nonfood products and services: 2.5% and 2.9%, respectively. In May 2014, the consumer price index amounted to 107.6%

year on year and exceeded by 0.2 p.p. the index of the previous year. In January–May 2014, weak economic dynamics was mainly justified by structural factors. It is to be noted that a long-term reduction of the volumes of investments in capital assets is the main factor behind slowdown of growth in the short-term prospect. In May 2014, investments in capital assets decreased by 2.6% as compared to the respective period of 2013. In 2014, a drop in investments in capital assets was justified by a higher economic uncertainty, worsening of the financial position of real sector companies, tougher conditions of bank lending and higher capital flight from the country.

In May 2014, the rate of unemployment kept falling to 4.9% with the average index of 5.4% in January–April (on the basis of the ILO methods). The labor mar-

ket indicators point to growth in labor shortages: both the number of the officially registered unemployed per one vacant job and the share of the unemployed receiving unemployment benefits decreased. The low rate of unemployment in a situation of slowdown of economic growth rates is the result of low labor efficiency.

With the existing level and efficiency of utilization of the main factors of production, the Ministry of Economic Development of the Russian Federation and the world's leading agencies expect slowdown of 100.4% to 100.6% of Russian GDP growth rates in Q2 2014 as compared to the respective period of the previous year with the spread of annual estimates in the range of 99.0–101.0%. ●