

Olga Izryadnova

## Real Economy: Trends and Factors

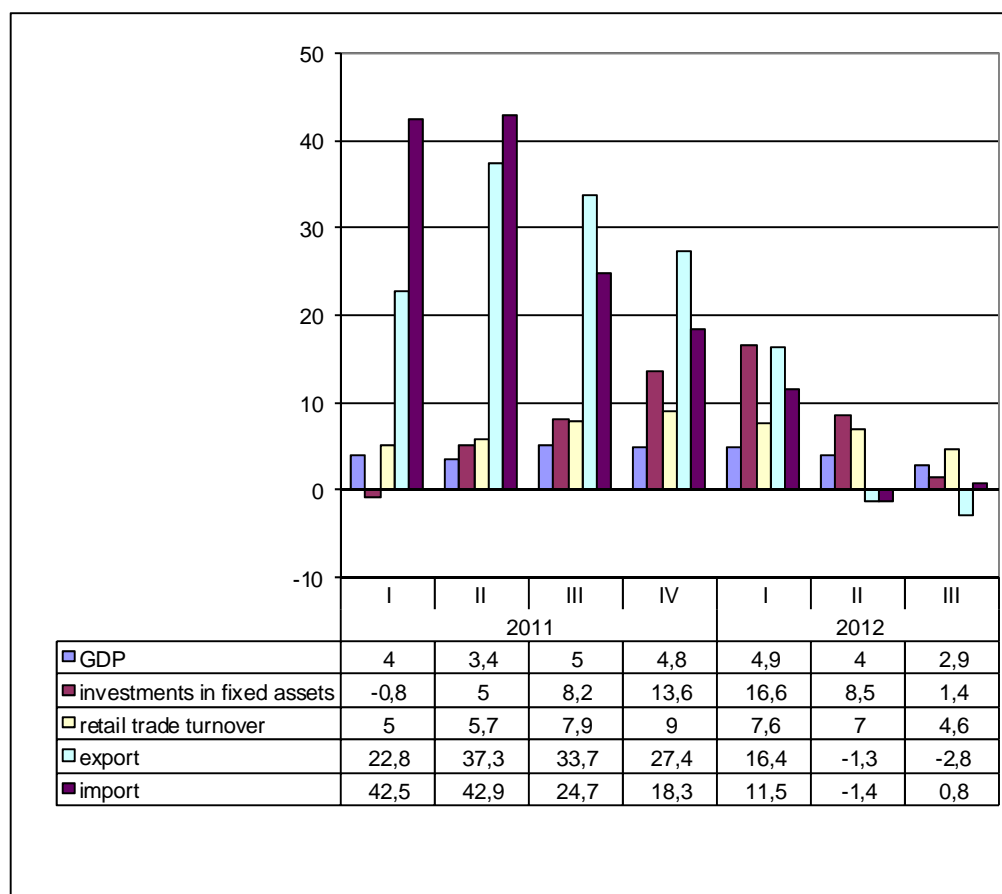
*The increase in investments in fixed assets of 4.9% versus October 2011 was a positive aspect of October 2012. As a result the workload in construction (105.1%) and housing construction (111.0%) started to grow again. This October the industrial production index made 101.8% versus October 2011, being 103.0% in the manufacturing industry. The dynamics of the manufacturing industry development is influenced by the weakening of the machine-building and adjacent metallurgy complexes production growth rates. Besides, the drop in the agriculture production volumes by 13.3% versus October 2011 has a negative effect on the economy growth rates.*

This year the macroeconomic situation was formed against the background of the gradual slowdown of both the internal and external demand growth rates.

It was the nature of the investment activity that had a prevailing influence on the internal demand. The upsurge of the investment activity from Q3 2011 to Q2 2012 was succeeded by the abrupt slowdown of July-August, resulting in the slowdown of the investments in fixed assets growth rates in Q3 2012 down to 101.4% versus the corresponding period of the previous year.

It should be noted at the same time that the attractiveness of the Russian economy for foreign investors has decreased. In January-September 2012 the Russian economy received foreign investments at the level of only 85.6% of January-September 2011. The contraction resulted from the shrinking of the total volume of the trade credits, credits issued by foreign governments and international financial organizations, as well as banking credits. It is of notice, that direct foreign investment went up by 4.6% as compared with January-September 2011, but their share in the total volume of the foreign investments is insignificant (10.7%) and remains below the pre-crisis level. In January-September 2012 \$109.4bn of investments was directed abroad from Russia, which is 13.0% above the figure of January-September 2011. The volume of the Russian investments abroad exceed the volume of investments in Russia by non-residents by \$5.3bn.

In October 2012 the growth rates of the investments in fixed assets made 104.9% versus October 2011, the workload in construction recovered (105.1%) as well as the implementation of the housing (111.0%). On the whole over the period of January-October 2012 investments in fixed assets went up by 9.5%, exceeding by 3% the figure of the corresponding period of the previous year. It is traditional for the Russian economy that the investment activity grows at the end of the year, but one can hardly expect that the investment growth rates this year exceed the level of the previous year.



Source: Federal State Statistics Service

**Fig. 1. GDP, Investment in Fixed Assets, Retail Trade Turnover and Foreign Trade Components Growth Rates in 2011-2012, as Percentage to the Corresponding Quarter of the Previous Year**

Influence of the consumer demand on the dynamics of the economic development this year has been connected with the characteristic features of the inflation and population's incomes dynamics. The index of consumer prices in the period from the beginning of the year to October 2012 made 105.6% versus 105.2% in the corresponding period of 2011, the prices for foodstuffs having increased by 6.1% (2.7% in the corresponding period of 2011), for non-food goods - by 4.4% (5.7%), for paid services – by 6.8% (8.3%).

In October 2012 the index of real incomes of the population made 102.4% and that of real wages – 105.2%, being 103.5% and 108.8%, correspondingly, in January-October 2012 as compared with the analogous period of the previous year.

It should be noted that in the current year the real incomes of the population and the real wages exceeded considerably the figure of January-October 2011, while the quarter-by-quarter dynamics of the consumer demand was characterized by the gradual slowdown. Retail trade turnover growth rates over January-October 2012 made 106.1% (versus 106.6% over the corresponding period of 2011), being 103.8% (109.1%) in October as compared with the corresponding period of the previous year.

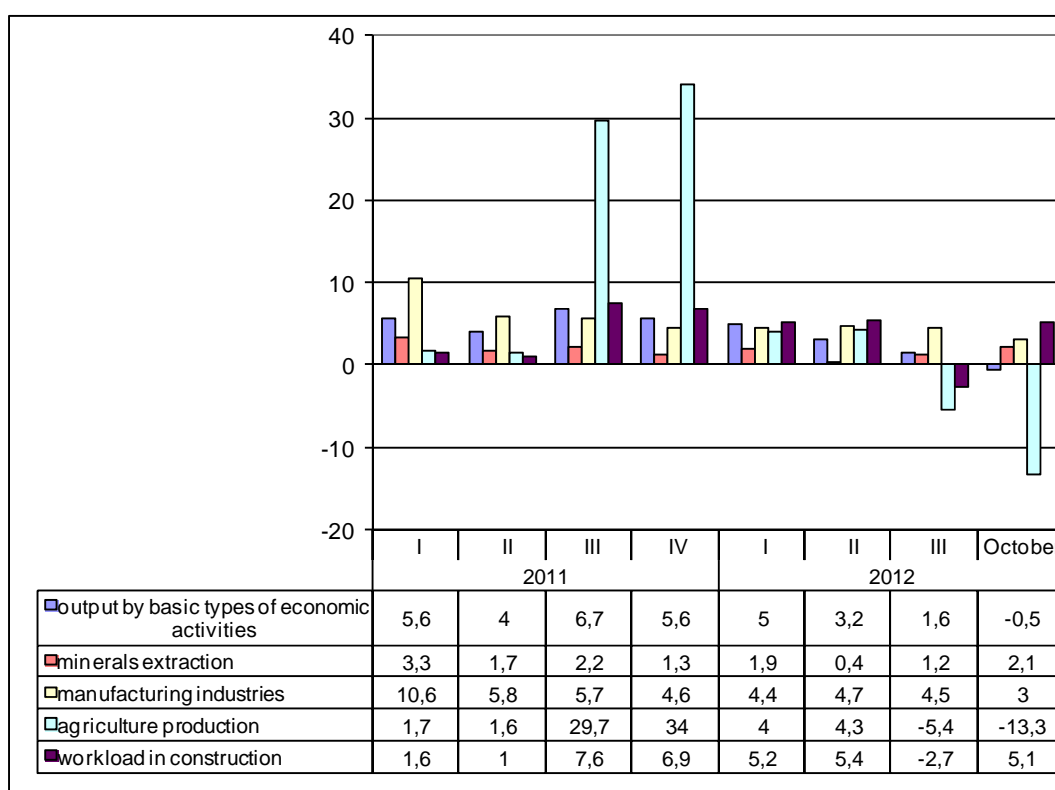
The structure of the consumer prices having changed, starting with July 2012 the growth rates of the demand for foodstuffs has been observed to decrease dramatically. In October 2012 the foodstuffs market turnover exceeded the figure of October 2011 by only 0.5% (the increase

of 4.9% was observed as a result of H1 2012). The increase in the non-food goods market turnover in October 2012 made 6.9% as compared with 11.8% a year ago. This was accounted for by, firstly, the slowdown of the real incomes of the population growth rates and real wages starting with September 2012, and, secondly, the change in the consumer behavior: the proportion of expenses for the goods purchase and the proportion of savings in the incomes of the population decreasing, starting with Q3 2012 the trend towards the expansion of the proportion of expenses for foreign currency purchase has been intensifying.

Throughout 2012 the consumer market acted as one of the main factors supporting the economic growth, its expected expansion as a result of the year being estimated to be at the level of 106.1% versus 107.0% in 2011, which, in its turn, is connected with the trend for the real wages growth acceleration by 9.1% and the real incomes of population growth acceleration by 3.5% versus 2011.

This year the external demand is observed to contribute less in the economic dynamics, the growth rates of foreign trade turnover slowing down substantially (*fig. 1*). It should be noted that throughout the year the influence of the foreign trade component on the economic development growth rates has been changing. Whereas in Q1 2012 the net export acted as a factor accelerating the GDP growth rates versus the corresponding period of 2011, the contraction of export in Q2-Q3 2012 by 2% and import – by 0.3% as compared with the corresponding period of the previous year has, in contrast, resulted in the strengthening of the trend for the economic development slowdown.

The commodities market is characterized by the slackening of the dynamics by the main types of the economic activity.



Source: Federal State Statistics Service

**Fig. 2. Dynamics of Goods and Services Output by Basic Types of Economic Activity in 2011-2012, as Percentage to the Corresponding Period of the Previous Year**

Throughout the year the industrial production growth rates have been slowing down steadily: in October industrial production index made 101.8% versus October 2011, mineral extraction index – 102.1%, manufacturing industries index – 103.0%.

Dynamic recovery of the machine-building production in the post-crisis period had a considerable effect on the aggregated indices of the manufacturing industries, but in the current year the growth rates slowed down in all the types of machine-building production complex. In October 2012 as compared with October 2011 the index of machinery and equipment production made 101.8% (100.5% in January-October), of electric, electronic and optic equipment production – 109.8% (105.6%). Of transport vehicles and equipment production – 113.6% (115.8%). Transport vehicles and equipment production is supported by the positive dynamics of the passenger cars production that at the moment compensates for the contraction in trucks and some types of railway equipment production.

In October 2012 as compared with the previous month the majority of intermediate goods production industries were characterized by the production acceleration, however estimating the significance of this growth one should not forget about the low level of basic figures.

Among the consumer goods production industries, it is only the foodstuffs production that was characterized by the steady positive dynamics. However, analyzing the development of the foodstuffs production, one should take into account the prospects of its provision with agriculture raw materials. In October 2012 the agriculture production made 86.7% in October 2012 versus the corresponding figure of 2011.

Taking into account the existing trends of January-October 2012, this year the attainment of the industry growth rate at the level of 103.6% as included in the forecast by the RF Ministry of Economic Development is becoming doubtful.