

RUSSIA'S REAL SECTOR OF THE ECONOMY IN SEPTEMBER 2014: FACTORS AND TRENDS

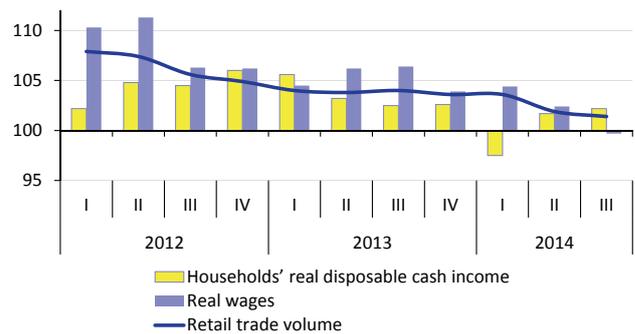
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In September 2014, the trend of slowdown of economic dynamics by the baseline types of economic activities stopped. Growth in industrial output, manufacturing and mining amounted to 2.8%, 3.6% and 2.4%, respectively, as compared to September 2013. However, the situation is complicated by the continued drop in investment activities. Investments in capital assets decreased by 2.8%, while the volume of jobs in building, by 3.7% as compared to September 2013. In September, year-on-year growth of up to 8% in the inflation rate and a 1% reduction in real wages caused a sudden slowdown of households' consumer activities and the retail trade volume.

In 2014, the macroeconomic situation is characterized by gradual slowdown of development. In H1 2014, the index of GDP in physical terms amounted to 100.8% with a forecast at the level of 100.1% in H2 2014.

A decrease of 2.5% in investments in capital assets as compared to January–September 2013 had a considerable effect on the dynamics of the domestic demand. In September 2014, due to growth in the cost of credit funds, limitation of companies' access to borrowing on global financial markets and prevalence of high geopolitical risks a year-on-year drop of 2.8% in investments was observed. The situation is getting worse due to a higher outflow of capital – in January–September 2014 it amounted to \$85.2bn which is 1.93 times higher than the respective index of the previous year – and a twofold reduction of the volume of direct foreign investments. Despite an adjustment change in the dynamics of producer prices and positive dynamics of growth in the balanced financial result of enterprises' and entities' performance, their ability to invest in production out of profit available to them amounts to 85% of the level of January–September 2012.

The main factor behind the positive trend of development of the Russian economy is consumption by households, however contribution of both the above factor and public administration to the GDP dynamics is getting much weaker. The dynamics of consumer demand is greatly affected by slowdown of growth rates of real income, growth in a load on households as regards repayment of loans and growth in inflationary expectations with preservation of a high share of conversion of income into foreign currency. In September 2014, households' year-on-year real disposable cash income rose by the mere 0.6% due to growth in the share of social payments and revenues from property in households' cash income. For the first time since January 2010, in September 2014 real wages which account for a dominating portion of households' income decreased by 1.0% year-on-year.



Source: The Rosstat.

Fig. 1. Indices of households' real income and retail trade volume in the 2012–2014 period as % of the respective period of the previous year

In January–September 2014, growth in the retail trade volume and paid services to households amounted to 2.3% and 1.1% on the respective period of the previous year. In 2014, sustained slowdown of the retail trade volume takes place simultaneously both in the segment of food products (100.2% and 99.6% in January–September and September 2014, respectively, on the respective period of the previous year) and the segment of non-food products (104.0% and 102.9%). In September 2014, the index of year-on-year consumer-price inflation amounted to 108.0%. Growth in prices on food products makes the largest contribution to the inflation rate: 11.0% year-on-year in September 2014 with the index of 4.8% a year earlier. In September 2014, the indices of prices on non-food products and paid services to households grew slower: 103.8% and 105.9%, respectively.

The consumer behavior is affected by the situation on the labor market. In September 2014, the number of the gainfully employed population decreased by 425,000 persons or 0.6% as compared to the previous month. For the first time since the beginning of the year, in September the number of the unemployed (according to the methods of the ILO) exceeded by

57,000 persons the index of the previous year and amounted to 3,720,000 persons: in September 2014 the level of unemployment amounted to 4.9% of the gainfully occupied population against 4.8% in August. Late in September, 796,000 persons (4.8% lower as compared to August 2014) were registered as unemployed with the state offices of the employment service. In September 2014, among the unemployed the share of persons who left their jobs due to a reduction of the number of workers and liquidation of their company or own business amounted to 16.6%, while the share of persons who left their job due to a voluntary resignation, to 25.1%.

In 2014, the dynamics and pattern of economic growth are determined by advanced growth in trading sectors (mining, manufacturing and agriculture) – 101.7% on the basis of the results of H1 2014 – as compared to growth in non-trading sectors at the level of 100.4%. A positive contribution to the dynamics of economic development is made by agriculture: in September 2014 the output in that sector increased by 16.6% as compared to September 2013, while in January–September 2014, by 7.7% on the respective period of the previous year.

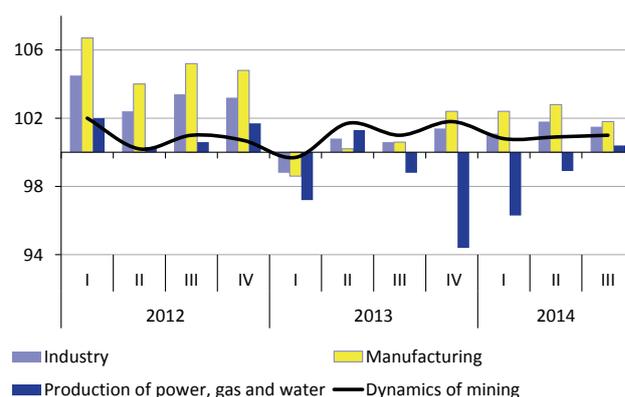
In September 2014, the index of industrial production was equal to 102.8% and 101.5% as compared to September 2013 and January–September 2013, respectively. Such dynamics of industrial output is justified by advanced growth rates of manufacturing. The index of manufacturing amounted to 102.3% and 103.6% in January–September 2014 and September 2014, respectively, as compared to the respective period of the previous year.

Advanced growth as compared to the average one in manufacturing was registered in production of food products (103.6% in January–September 2014), oil products (106.0%) and rubber and plastic articles (105.0%). Instability of dynamics of engineering and iron and steel complexes is determined by a decrease in investment demand registered from November 2012. In January–September 2014, production of machines and equipment fell by 7.5%, while that of electric, electronic and optical equipment, by 0.6% as compared to the respective period of the previous year. In production of transport vehicles and equipment, diversification of the results of activities by the type of products intensifies: in January–September 2014 in motor industry the output gap amounted to 9.8% (18.4% in September), while in production of vessels and flying and space vehicles there was growth of 28.5% (30.3%) as compared to the respective period of the previous year. As a result, growth in general by the type of activity – production of transport vehicles and equipment – amounted to 23.4% as compared to

January–September 2013 and was completely justified by growth in state orders.

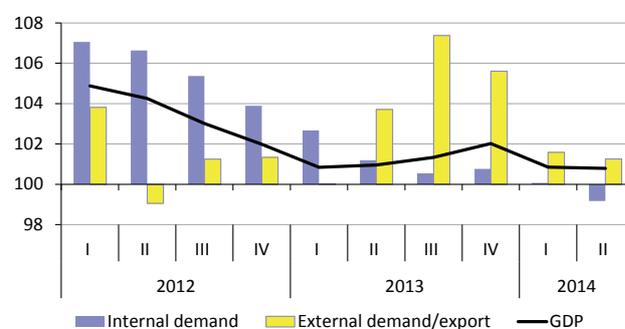
During the past four months, in the consumer sector of industry a drop in annual growth rates was observed. In September, in textile and sewing industry, a year-on-year drop in output amounted to 12.9%, while in production of leather, leather articles and footwear, to 0.2%. Downward dynamics of production in those types of activities overlaps with the trend of reduction in import of the respective commodity items.

In 2014, the quarterly dynamics of mining is characterized by some acceleration. In January–September 2014, the mining index amounted to 101.0% as compared to the previous year (102.4% in September), including in production of fuel and energy primary products – 100.9% (102.5%). As compared to 2013, in January–September 2014 growth in production of oil amounted to 1.2% with growth of 5.1% in processing volumes. A speed-up of growth rates of export of oil products with a reduction of vo-



Source: The Rosstat.

Fig. 2. The index of industrial output by the type of economic activities in the 2012–2014 period as % of the respective quarter of the previous year



Source: The Rosstat.

Fig. 3. Dynamics of GDP by components of domestic and external demand in the 2012–2014 period as % of the respective quarter of the previous year

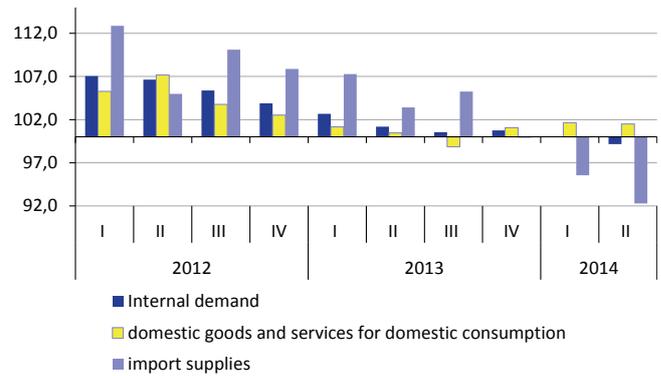
lumes of export of crude oil was justified by advanced growth in production of oil products. As compared to January–September 2013 and September, production of gas fell by 5.4% and 16.9%, respectively.

The analysis of the main indices of production and utilization of GDP in H1 2014 points to the fact that the main factor behind of economic growth in 2014 is external demand. The dynamics of domestic demand is negatively affected by narrowing of investment demand.

In 2014, a sudden drop in the volumes of import as compared to the indices of the previous year was registered; it is to be noted that though weak growth in production of goods and services for the domestic market recovered it is explicitly insufficient to stop a quarterly trend of shrinking of domestic demand both on consumer and investment markets.

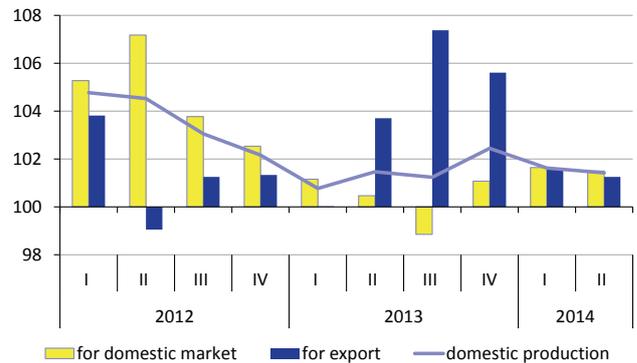
In H1 2014, recovery of the positive dynamics of output was ensured by growth in manufacturing and agriculture which situation resulted in advanced growth rates of production volumes of goods for domestic consumption as compared to the dynamics of the export-oriented production.

It is to be noted that low growth rates of the Russian economy point to the fact that the potential for development is diminishing. The evidence of the above is the pre-crisis maximum level of loading of production capacities, a lack of large-scale investments and the record-low level of the rate of unemployment. ●



Source: The Rosstat.

Fig. 4. Dynamics of domestic demand by components in the 2012–2014 period as % of the respective quarter of the previous year



Source: The Rosstat.

Fig. 5. Dynamics of domestic production of goods and services by components in the 2012–2014 period as % of the respective quarter of the previous year.