

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

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*In November 2014, a trend of weak economic dynamics intensified. In November 2014, the industrial production index amounted to 99.6%, including 97.0% in manufacturing as compared to the previous year. Investments in capital assets fell by 4.8% as compared to November 2013; irregularity in fulfillment of jobs in building intensified. The situation is complicated by slowdown of growth rates of households' real incomes by 4.7% year on year in November 2014 and growth in the rate of inflation to 9.1% as compared to November 2013.*

In Q3 2014, the index of the physical volume of GDP amounted to 100.7% on the respective period of the previous year. Slowdown of growth rates of the Russian economy is justified by a simultaneous effect of the following two groups of factors: structural factors and geopolitical factors.

Structural problems of the Russian economy are explicitly evident in the crisis in the building and investment complex which situation is justified by a decrease of 2.8% and 4.8% in investments in capital assets and the volume of jobs in building, respectively, as compared to January–November 2013. The situation is made worse by a reduction of output volumes of domestic capital goods and engineering materials for building. According to the IEP forecast, on the basis of the results of 2014 a drop in investments in capital assets will amount to 2.8% as compared to the previous year<sup>1</sup>.

The main factor behind positive growth rates of GDP is still consumption by households, however, contribution by households to the dynamics of GDP is getting much weaker as compared to the 2012–2013 period. In the pattern of households' cash income, in January–October 2014 the share of savings amounted to 6.2%, which is 2.4 p.p. lower than the index of the respective period of 2013. In a situation of growing inflationary expectations, in January–October 2014 the share of savings placed in deposits and securities in households' income amounted to 0.7% (5.2% a year before) with growth in the share of expenditures on purchasing of foreign currency to 5.7% in the current year against 4.4% in the same period of 2013.

Changes in the pattern of households' expenditures take place in a situation of a decrease in growth rates of households' real income. In November 2014, the annual index of real income amounted to 95.7%, while that of real wages, to 100.5%.

In November 2014, year-on-year growth rates of retail trade volumes and paid services to the population slowed down to 1.8% and 1.1%, respectively (in November 2013 those indices amounted to 4.1% and 0.9%, respectively). From June 2014, indices of retail trade volumes and paid services to the population have been at the minimum level during the period of observation from March 2010. In January–November 2014, the retail trade volume in the segment of food products fell to 99.9% as compared to the respective period of the previous year (98.3% in November), while in the segment of non-food products, to 104.0% (104.8%). In January–November 2014, the consumer inflation index amounted to 108.5% and exceeded by 2.6 p.p. the respective index of the previous year. In 2014, appreciation of prices on food products by 11.8% in January–November had a dominating effect on the rate of inflation (6.5% a year before). In January–November 2014, growth in prices on non-food products and paid services to the population was much lower than that in food products: 105.7% and 108.0%, respectively.

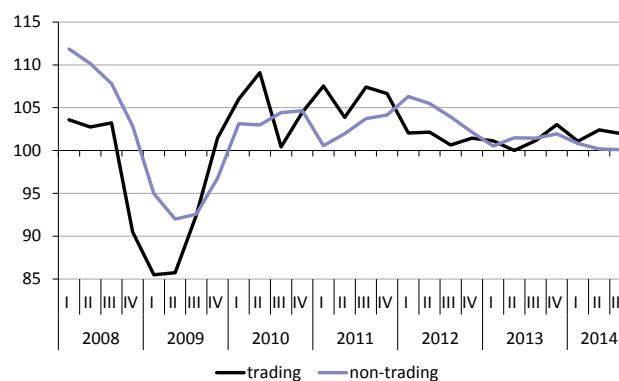
In 2014, the rate of unemployment kept going down which factor had a positive effect on the social and economic stability. In November 2014, the number of the unemployed (calculated on the basis of the ILO methods) was estimated at the level of 3.9m people, while the level of unemployment amounted to 5.2% of the gainfully employed population and was 0.2 p.p. lower than the respective index of the previous year. Late in November 2014, 822,000 people or 94.1% of the index of November 2013 were registered as unemployed with the state employment offices.

From H2 2013, the dynamics of GDP has been much affected by non-trading sectors of the economy (trade, building, transport, market services and other) which were hit the hardest by slowdown of domestic demand. In that segment, sustained positive dynamics is observed with the financial sector. A dramatic slowdown of growth rates is registered in the sector of real-estate operations, healthcare and education.

1 M. Turuntseva, E. Astafieva, M. Baeva, A. Bozhechkova, A. Buzayev, T. Kiblitckaya, Yu. Ponomarev, A. Skrobotov. *Model Calculations of Short-Term Forecasts of the Social and Economic Indices of the Russian Federation*. Scientific Bulletin of the Gaidar Institute No. 10(80), 2014, pp. 3–34.

The trading sectors (mining, manufacturing and agriculture) which account for nearly 50% of all the jobs and investments in capital assets remain the main sources which underpin economic growth. In November 2014, the year-on-year index of industrial production amounted to 99.6%, while in January–November, to 101.5% as compared to the respective period of the previous year which situation can be partially explained by a lower base of the previous year. In November 2014, for the first time since September 2013 a year-on-year decrease in manufacturing was registered. In November 2014, the indices of manufacturing, mining and utilities (electricity, gas and water) amounted to 97%, 2.5% and 107.0%, respectively.

The situation in manufacturing was complicated by a lengthy period of growth in production costs due to a tariff policy of infrastructure monopolies and advanced growth in wages as compared to labor efficiency. It is to be noted that in January–November 2014 the price index in manufacturing rose by 8.2% against 2.6% a year before.



Source: The Rosstat.

Fig. 1. Dynamics of GDP by the trading sector and non-trading sector of the economy in the 2008–2014 period, % of the respective quarter of the previous year

On the basis of the results of January–September 2014, the balanced financial result of business entities' activities in general fell by 8.9% as compared to the same period of the previous year. A drop in financial results is justified by prevalence of low business ac-

Table 1

**PROFITABILITY OF SOLD GOODS, PRODUCE, JOBS AND SERVICES BY THE TYPE OF ECONOMIC ACTIVITIES  
IN JANUARY–SEPTEMBER 2010–2014, %**

	2010	2011	2012	2013	2014
Total	11.6	11.2	10	7.7	8.7
including:					
Agriculture	12.2	11.8	15.2	7.1	18.3
Fishery and fish farming	25.0	22.9	23	19.7	32.4
Mining	32.8	36.4	32.6	27.3	25.4
including:					
Production of fuel and energy minerals	30.4	32.5	30.2	26.3	24.1
Manufacturing	14.4	13.4	11.9	9.7	10.2
including:					
Production of food products	12.6	8.3	11.2	9.9	9.8
Textile and sewing industry	5.3	7.2	7.8	6.1	9.5
Production of leather, leather articles and footwear	6.9	7.7	8.9	9.7	5.3
Woodworking and production of articles	1.0	6.0	5.5	7.0	12.0
Pulp and paper industry;	10.6	11.9	10.9	8.3	10.5
Coke and petroleum production	22.8	20.0	14	10.1	9.7
Chemical industry	19.1	24.1	23.9	18.3	19.7
Production of rubber and plastic articles	7.5	7.5	8.5	10.1	7.0
Production of non-metal mineral products	8.1	12.0	13.5	10.4	9.1
Iron and steel industry and finished products	19.5	16.7	12.2	10.7	15.2
Production of machines and equipment	7.3	7.0	7.3	7	6.4
Production of electric equipment, electronic equipment and optical equipment	9.0	8.5	8.3	7.7	8.8
Production of transport vehicles and equipment	4.2	6.1	6.8	5.8	4.0
Utilities (electricity, gas and water)	6.9	6.6	3.8	4.1	4.3
Building	4.1	3.4	3.8	3.5	3.3
Wholesale and retail trade	8.3	9.4	8	6.7	7.1
Hotels and restaurants	7.3	6.6	7.4	6.3	6.6
Transport and communications	15.0	13.4	13.8	11.3	10.7
including:					
Railway transport	8.8	6.1	7.8	3.3	3.6
Other land transport	-4.2	-5.9	-2.9	-6	-8.1
Pipeline transportation	17.4	19.1	17.1	15	15.8
Communications	51.5	27.9	27.7	28.3	25.6

Source: The Rosstat.

tivities, worsening of foreign trade conditions and narrowing of consumer and investment demand.

A dominating effect on the dynamics of the balanced financial result is produced by the industry. In January–September 2014, in manufacturing the financial result amounted to 97.5% on the respective index of the previous year. In mining, due to a positive effect from depreciation of the ruble exchange rate and improvement in the global market situation by individual commodity groups growth in the balanced financial result amounted to 122.7% against January–September 2013.

As compared to January–September 2013, in production of goods of investment demand a higher decrease both in the consolidated financial result and production profitability was registered. A highly irregular dynamics of development and high dependence on import supplies, particularly, in such types of activities as production of machines and equipment and transport vehicles resulted in nearly a double reduction of the financial result and the profitability index of that sector.

With reduction of demand and depreciation of global prices on crude oil, the trend of growth in oil re-

fining and export of petroleum has consolidated which situation slowed down a decrease both in the financial result and profitability of petroleum production; the above decrease was registered from 2013.

The iron and steel industry took advantage of appreciation of prices on the domestic and global markets and depreciation of the ruble which situation permitted the balanced financial result to enter the area of positive values for the first time in the past five years with growth in production profitability. On the contrary, the chemical industry happened to be in a less advantageous situation: a decrease in export prices on fertilizers failed to result in growth in output and recovery of profitability at the average level of the 2012–2013 period. Among types of business activities aimed at the ultimate demand, industries oriented at the consumer market are in the most advantageous position, though fluctuations in the dynamics of the financial result are considerable both by the type of economic activities and individual periods. Appreciation of the imported and domestic primary products has a considerable effect on the level of profitability. ●