

THE REAL SECTOR OF THE ECONOMY: FACTORS AND TRENDS IN Q4 2014

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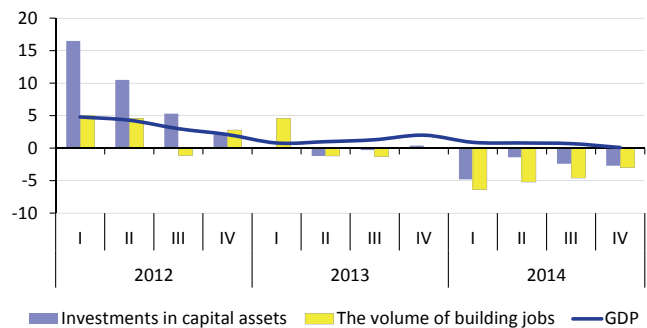
According to the preliminary estimates of the Ministry of Economic Development of the Russian Federation, in 2014 GDP annual growth rates amounted to 100.6% as compared to the previous year. Slowdown of growth rates of the Russian economy is justified by low internal demand. Investments in capital assets fell by 2.5%, while growth rates of the consumer market slowed down to 2.5% as compared to 2013. In 2014, a positive trend was a speed-up of growth rates of industrial production to 101.7% with advanced growth in manufacturing (102.1% on the previous year).

A negative factor of 2014 was a drop in households' real income due to growth of 11.4% in the consumer price index in 2014. The situation on the labor market is getting worse: in December 2014 as compared to the previous month the total number of the unemployed rose by 0.9%, while the number of officially registered unemployed, by 7.5%.

In 2014, the main structural factors behind development of the Russian economy were the following: weakening of growth rates of external and internal demand during a long period of time and reduction of the volumes of domestic and foreign investments in capital assets. Dramatic worsening of the geopolitical situation and introduction of cross-sanctions further complicated the prospects of development of the Russian economy. In Q4 2014, the above negative factors were supplemented with a drop both in prices and demand on oil due to which factor depreciation of the ruble became more dramatic and the inflation rate increased. However, according to the estimates of the Ministry of Economic Development of the Russian Federation, in 2014 despite the unfavorable combination of factors GDP growth rates remained in the positive value zone and amounted to 100.6% (101.3% in 2013).

In 2014, investments in capital assets and volumes of building jobs amounted to 97.5% and 95.5%, respectively, on the index of 2013. In 2014, the share of investments in capital assets in GDP fell to the minimum level since 2007 and amounted to 18.8% with the average index of 20.1% in the 2007–2013 period.

In 2014, the specifics of investment activities was determined both by trends of the previous year and reduction of investment resources due to a drop in enterprises' revenues, appreciation of loans, toughening of borrowing conditions on foreign markets and dramatic shrinkage of foreign investments. In addition to the above, higher capital flight and a decrease in the share of the gross national savings in GDP had a negative effect on the dynamics of investments in capital assets: in 2014 capital flight amounted to \$151.5bn and exceeded nearly 2.5 times over the index of 2013. The existing tough conditions of functioning of the building and investment complex will have a negative



* the preliminary data.

Source: The Rosstat.

Fig. 1. Dynamics of the main indices of the investment and building complex in the 2012–2014 period, % of the respective quarter of the previous year

impact on implementation of investment decisions in 2015.

In 2014, a major factor which had a positive effect on the general economic dynamics was consumer demand though growth in expenditures on ultimate consumption slowed down to 101.7% in 2014 against 103.9% in 2013. Weakening of the dynamics of households' consumption was justified by the effect of such fundamental factors as slowdown of growth in households' real income and growth in debt burden justified by excessive lending to households. In addition to the above, in 2014 inflationary pressure related to depreciation of the ruble due to the geopolitical tensions, changes in the global market situation and introduction of the embargo on import of some food products had a negative effect on consumer behavior. In 2014, growth in the retail trade volume and paid services to households amounted to 2.5% and 1.3%, respectively, on the previous year.

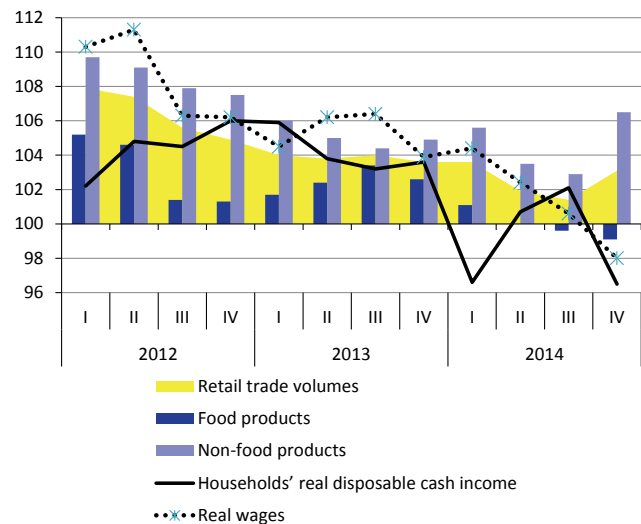
Slowdown of the dynamics of the retail trade volume with a decrease in the difference between

growth rates by the type of goods was observed from the beginning of 2012. In 2014, the markets of food products and non-food products amounted to 99.9% and 104.7%, respectively, on the index of 2013 with fairly significant differentiation of the rates by the quarter.

In 2014, the analysis of the dynamics of the retail trade volume showed that consumers reacted promptly to price-rises on food products as a result of both introduction of counter sanctions which limited the import of food and depreciation of the ruble in Q3 and Q4 2014 by reducing demand on food products. If in January–February 2014 growth in retail trade in food products amounted to 0.2% (2.6% in January–September 2013), in October–December 2014 a decrease of 0.9% was registered (growth of 2.5% a year before). Generally, in 2014 prices on food products rose by 15.4%; it is to be noted that the major increase in prices took place in Q4 and was justified by a dramatic depreciation of the ruble. In October–December 2014, growth in demand on non-food products intensified. In December 2014, year-on-year growth in the volume of the non-food market amounted to 10.5%. Growth in expenditures on purchasing of goods was accompanied by a decrease in the share of savings in households’ income with growth in the share of cash funds for conversion into foreign currency. It is to be noted that changes in the pattern of households’ expenditures took place with slowdown of the dynamics of households’ real income. On the basis of the results of 2014, households’ real income and real wages amounted to 99.0% and 101.3%, respectively, on the index of 2013.

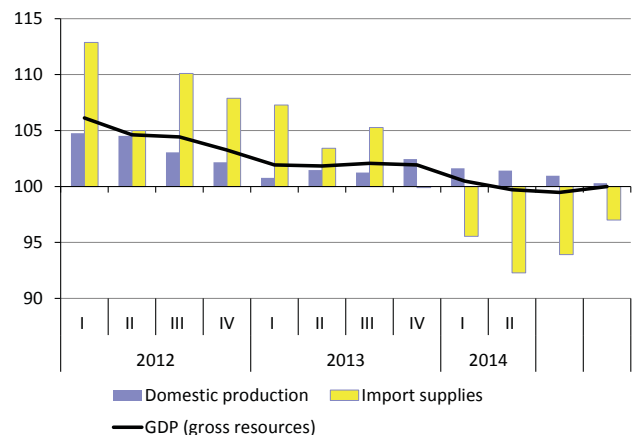
Changes in parameters of households’ life quality depends on the level of employment and labor remuneration of people and social security of the most vulnerable categories of the population. Generally, in 2014 on the labor market the level of unemployment remained at the historically low level and amounted to 5.1% (on the basis of the methods of the ILO) and that of registered unemployment, to 1.2% of the gainfully occupied population. The burden of the unemployed population per 100 vacant jobs reduced from 77.8 persons in January to 48 persons in September 2014. In December 2014, the situation changed: as compared to the previous month the total number of the unemployed rose by 0.9%, while the number of the officially registered unemployed, by 7.5%. From September, the burden on vacant jobs declared by state offices of the employment service has kept growing.

In 2014, a large-scale drop in import predetermined structural changes in formation of the resources of the domestic market: with a reduction of consumer demand, a drop in households’ income and depreciation of the ruble exchange rate the supply of domes-



Source: The Rosstat

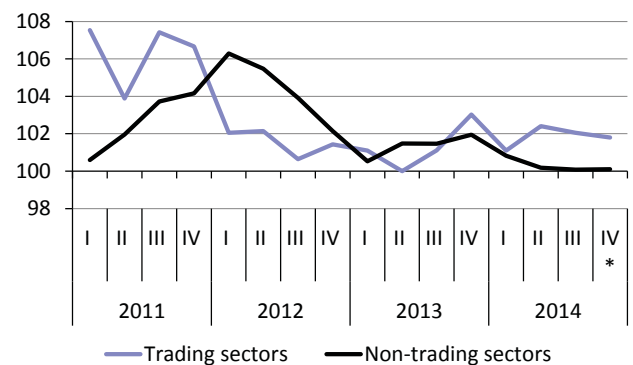
Fig. 2. Growth rates of households’ real income, real wages and retail trade volumes in the 2012–2014 period, % of the respective quarter of the previous year



* the preliminary data.

Source: The Rosstat.

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



* the preliminary data

Source: The Rosstat

Fig. 4. Dynamics of GDP as regards trading and non-trading sectors of the economy in the 2011–2014, % of the respective quarter of the previous year

tic goods increased. Such correlation of the dynamics illustrates formation of a trend – though a weak one so far – of import substitution and growth in the export of non-oil and gas goods, including high-tech ones.

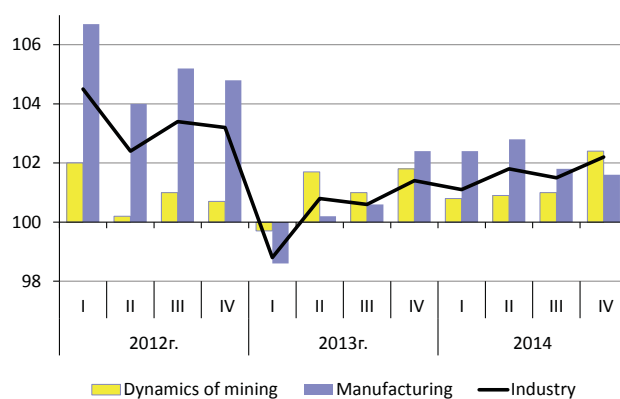
In 2014, unlike the previous few years the general dynamics and the pattern of economic growth were determined by advanced growth in the trading sectors (mining, manufacturing and agriculture) as compared to the non-trading sectors.

In 2014, growth in industrial production amounted to 1.7% as compared to the previous year. Sustained positive dynamics of quarterly growth rates of industry was typical of 2014. On the basis of the results of January–September 2014, growth in industrial production amounted to 101.5% on the respective period of the previous year and was justified by growth in production of primary products and renewal of positive dynamics of manufacturing. In January–September 2014, negative trends in manufacturing were overcome and output growth in that segment amounted to 2.3% as compared to the respective period of the previous year.

In Q4 2014, as compared to the same period of the previous year a speed-up of industrial growth rates to 102.1% against 101.4% a year before was registered. However, it is to be noted that during that period changes took place in the contribution by different types of economic activities to the general dynamics of industrial production. In Q4 2014, there was growth in production of primary products (102.4%), utilities (electricity, gas and water) (104.4%) and manufacturing (101.6%) on the respective period of the previous year. Undoubtedly, baseline indices of Q4 2013 had an impact on that dynamics of Q4 2014, but, generally, that factor had no effect on the contribution of individual types of economic activities to overall industrial growth. On the basis of the results of 2014, output growth in manufacturing, mining and utilities (electricity, gas and water) amounted to 102.1%, 101.4% and 99.9%, respectively, as compared to the previous year.

The main drivers of growth by the type of manufacturing industries were still production of food products, petroleum products and rubber and plastic articles. Shrinking of investment demand, as well as consumer demand in individual segments of the market justified reduction of output in engineering. As regards the growth rates of production, in 2014 the leaders in the engineering complex are still the ship-building industry and production of flying and space vehicles. Taking into account the developed system of inter-industry relations, there is some concern about the automotive industry where reduction of output of cars and trucks amounted to 9.7% and 25.7%, respectively, as compared to 2013.

In 2015, along with carrying out prompt anti-crisis response measures, priority will be given to structural



Source: The Rostat.

Fig. 5. Industrial indices by the type of economic activities in the 2012–2014 period, % of the respective quarter of the previous year

reforms aimed at diversification of the economy and creation of conditions for sustained economic growth in the mid-term prospect and effective utilization of all the instruments of the industrial policy, primarily, for ensuring support of import substitution and export¹.

Table 1

PRODUCTION INDICES BY THE MAIN TYPES OF MANUFACTURING INDUSTRIES IN THE 2012–2014 PERIOD, % OF THE PREVIOUS YEAR

	2012	2013	2014
Manufacturing industries	105.1	100.5	102.1
Production of food products	104.1	100.6	102.5
Textile and sewing industry	100.7	104.3	97.5
Production of leather, leather articles and footwear	98.1	95.6	97.2
Woodworking and production of wood articles	96.2	108.0	94.7
Pulp and paper industry; publishing and printing	105.8	94.8	100.4
Production of charred coal and petroleum products	103.1	102.3	105.7
Chemical industry	104.1	105.4	100.1
Production of rubber and plastic articles	112.8	105.9	107.5
Production of non-metal mineral products	110.7	98.0	101.8
Primary metal and fabricated metal production	104.8	100.0	100.6
Machinery and equipment production	102.7	96.6	92.2
Production of electric, electronic and optical equipment	106.4	99.0	99.5
Production of transportation means and equipment	110.3	102.2	108.5

Source: The Rostat.

1 The Plan of Priority Measures to Ensure Sustained Economic Development and Social Stability in 2015. The Plan was approved by Resolution No.98-r of January 27, 2015 of the Government of the Russian Federation.