

## RUSSIA'S REAL SECTOR OF THE ECONOMY IN JANUARY 2015: FACTORS AND TRENDS

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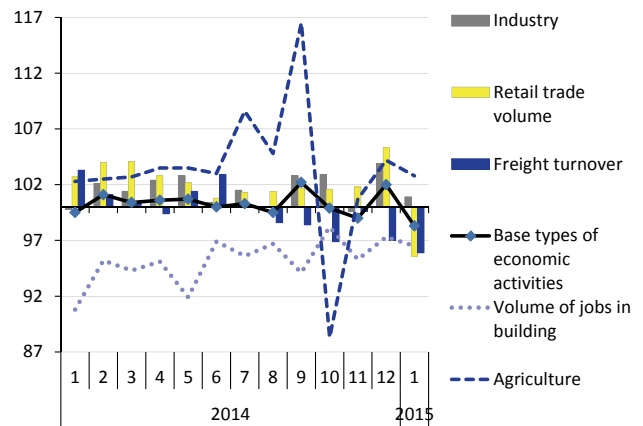
*In January 2015, a drop of 5.1% and 6.3% year-on-year in retail trade volume and investments in capital assets, respectively, had a considerable effect on the domestic market. The dynamics of the consumer market was determined by a simultaneous drop of 5.5% and 3.5% in demand on food products and non-food products, respectively, as compared to January 2014. In January 2015, the market of investment goods and services was characterized by a decrease of 3.5% year on year in building. In January 2015, industrial production increased by 0.9% year on year with growth of 1.5% in the primary sector and a drop of 0.1% in manufacturing.*

*In January 2015, the total number of the unemployed and the number of the officially registered unemployed increased by 3% and 2.6%, respectively, but the above indices remained much below the respective values of January 2014.*

In January 2015, the domestic market was much affected by a simultaneous drop both in the rates of consumer and investment demand. For the first time in the past five years, in January 2015 a drop of 4.4% in the retail trade volume against January 2014 was registered. The dynamics of the building and investment complex was determined by trends of the previous year. In January 2015, a year on year drop both in investments in capital assets and the volume of jobs in building amounted to 6.3% and 3.5%, respectively. Narrowing of the domestic market determined a decrease in demand on transportation services. In January 2015, freight turnover amounted to 95.9% of the index of the previous year. In January 2015, despite growth of 0.9% and 2.8% year on year in industrial production and agricultural products, respectively, the output of goods and services by the base type of economic activities shrank.

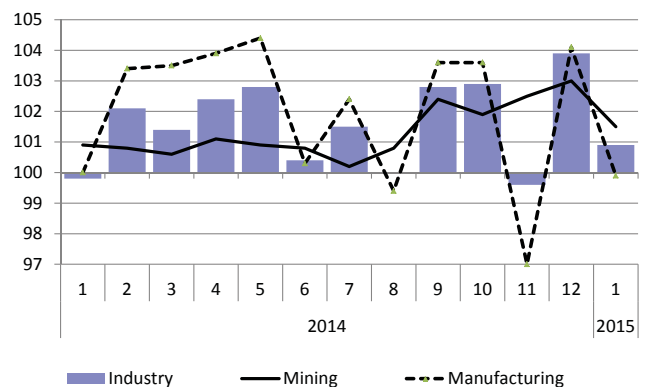
In January 2015, growth in mining amounted to 1.5% year on year, while output in manufacturing fell by 0.1%.

In January 2015, production of fuel and energy resources increased by 1.3% as compared to January 2014. As compared to January 2014, oil production stabilized, while against December 2014 it increased by 0.3%. In January 2015, the index of production of petroleum products amounted to 102.7% as compared to the respective period of the previous year. It is to be noted that in 2014 the volume of oil processing at oil refineries was the maximum one in the entire period of observations for 25 years. In 2014, the share of oil processing in the total volume of production rose by 2.2% as compared to 2013 and amounted to 56.1%. Due to reduction of demand both on the domestic and international markets, in January 2015 production of natural gas amounted to 90.5% of the index of the previous year. Export of natural gas is declining due to



Source: The Rosstat.

Fig. 1. Dynamics of the physical volume of output by the base type of economic activities in 2014–2015, % of the respective period of the previous year



Source: The Rosstat.

Fig. 2. Growth rates of industrial production by the type of economic activities in the 2014–2015 period, % of the respective period of the previous year

a drop in gas consumption in the European Union and Ukraine. The EU is replacing consumption of natural gas by other types of fuel, including coal and renewable energy sources in an effort to reduce its dependence on the Russian natural gas. In January 2015, production of metallic ore increased by 5.6% year on year. It is to be noted that in January 2015 high dynamics of production of metallic ore is related to growth of 22.0% year on year in producer prices (12.5% against December 2014).

In January 2015, in manufacturing industry diversification of growth rates by the type of economic activities intensified. Low competitive edge of individual types of products of domestic engineering and shrinkage of investment and building activities predetermined a trend of decrease in output volumes of machines and equipment. Reduction of investment and building activities resulted in a drop in production of the machine-building complex. In January 2015, year on year production of machines and equipment amounted to 90.7%, while that of electric, electronic and optical equipment, to 87.2%; production of transport vehicles and equipment was equal to 87.2%. The volume of output of special-purpose machines and equipment fell by 20.3% as compared to January 2014. In January 2015, year on year output gap remained in production of machines and equipment for agriculture and forestry (88.4% against January 2014), iron and steel industry (93.6%), fuel and energy sector (63.3%) and building industry (61.2%).

Dynamics of production of electric, electronic and optical equipment is justified by negative trends of development of consumer sectors of relevant equipment and a drop in solvent demand on complementary parts and equipment required for production of high-tech products. In January 2015, as compared to the previous year there was a decrease in the output volume of electric machines and equipment (7.8%), office equipment and computers (28.1%) and medical goods (1.4%). At the same time, growth of 5.3% in production of electronic components and hardware for radio, TV and communications, including growth of 41.1% and 31.3% in production of TV receiving equipment and transmitting equipment for wireless radio, broadcasting and TV, respectively, was registered which situation can be probably related to promotion of import substitution processes.

In January 2015, production of transportation means – vehicles and flying and space machines – decreased by 7.6% as compared to January 2014, but throughout 2014 the above type of business demonstrated exceptionally high growth rates. In 2014, the dynamics of the motor industry was in the area of negative values and in January 2015 a drop in output amounted to 22.7% year on year, including that of light

vehicles (25.7%) and trucks (13.6%) which situation is related to low solvent demand.

In January 2015, a reaction of engineering industries to a change in the domestic market situation was year on year growth in prices on machines and equipment (15.6% against 0.1% in 2014), electric, electronic and optical equipment (9.5% against 1.0%) and transport vehicles and machinery (8.9 % against 0.1%).

As regards strength of growth in prices, in January the leader was the iron and steel industry which situation would result in further appreciation of prices on engineering materials with year on year growth in prices estimated at the level of 24.1%.

In January 2015, the index of metallurgical production and production of finished metal products amounted to 103.0% year on year, including 103.7% in metallurgical production and 100.0% in production of finished metal articles. In January, dynamic growth remained in production of steel pipes (130.2% on January 2014) due to strengthening of positions of Russian manufacturers on the domestic market with a reduction of the import of Ukrainian products. In addition to the above, depreciation of the ruble exchange rate stimulated growth of 7.8% and 17.4% in output of bar iron for export and bar materials for export, respectively, as compared to January 2014.

In January 2015, the index of chemical production amounted to 102.7% year on year. A positive contribution was made by production of crop protection chemicals (150.8% on January 2014), paints and varnishes (105.0%) and pharmaceuticals (112.2%). Taking into account the fact that the domestic market is highly dependent on imported pharmaceuticals, growth in domestic production is a positive signal. The above is particularly important in a satiation of dramatic appreciation of prices on imported medicines. In January 2015, medicines appreciated by 6.6% and 20.2% as compared to December 2014 and January 2014, respectively.

In January 2015, the dynamics in the consumer goods segment was as follows: the indices of textile and clothing manufacture, production of leather, leather articles and footwear and household appliances amounted to 73.9%, 88.2% and 87.4% year on year, respectively. A decrease in that segment is justified by shrinkage of volumes of consumer demand with a drop in real disposable cash income. Taking into account a lengthy period of unstable development of those types of businesses and their high dependence on the import of primary products, dynamics of output and prices should be carefully monitored.

In January 2015, the index of production of food products amounted to 103.6% year on year. In the food industry, growth in output was registered over virtually all the aggregate positions as compared to January

2014: production of meat and meat products (107.8%); processing and canning of fish and seafood products (109.2%); processing and canning of potatoes, fruits and vegetables (105.3%); production of dairy products (103.1%); production of products of flour-and-cereals industry (105.0%) and production of ready-made animal feed (110.0%). It is to be noted that growth in output of food products is underpinned by simultaneous growth in output of industrial equipment for production of feed and processing of milk and meat.

In January 2015, a drop in retail trade volumes was accompanied by narrowing of demand on food products (5.5%) and non-food products (3.5%) as com-

pared to January 2014. Consumer behavior was affected not only by price rises and a drop in households' real income, but also speculative demand on durable goods in November–December 2014.

In January 2015, real wages and households' real incomes amounted to 92.0% and 99.2%, respectively on the index of last year.

As compared to December 2014, the total number of the unemployed and the number of the officially registered unemployed rose by 3% and 2.6%, respectively, but the indices are much below the labor market indices of January 2014. ●