

## THE REAL SECTOR OF THE ECONOMY: FACTORS AND TRENDS IN FEBRUARY 2015

O.Izryadnova

*In early 2015, Russia's domestic market was strongly affected by the simultaneous shrinkage of consumer and investment demand. In February 2015, the retail trade turnover index amounted to 92.3% in annual terms; the index of paid services delivered to the population amounted to 98.5%; and the index of investment in fixed assets – to 93.5% in annual terms. The beginning of 2015 was characterized by a profound deterioration of the indices of the population's real incomes.*

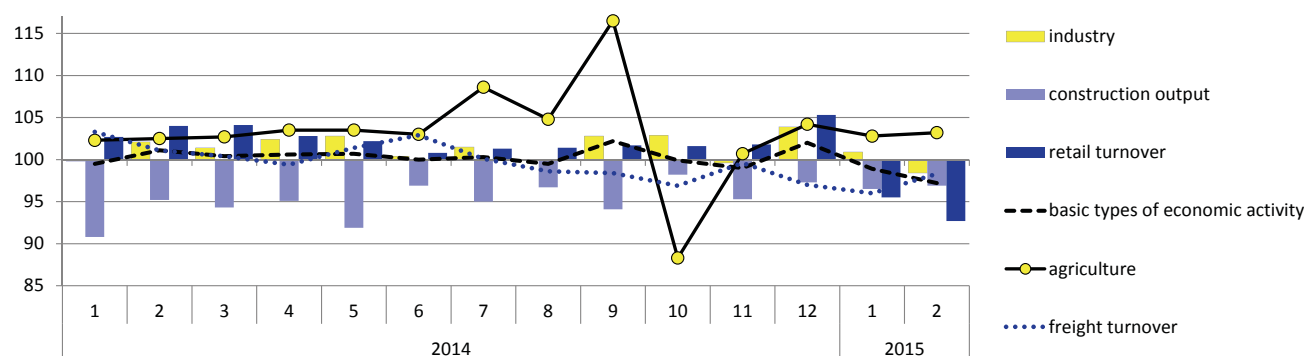
In February 2015, the satiation on Russia's domestic market was determined by the negative trends in consumer and investment demand.

At the beginning of 2015, Russia's domestic market continued to feel the negative impact of the downward trend in business activity within the investment-and-construction complex, which had emerged two years earlier. In February 2015, the Index of Investment in Fixed Assets amounted to 93.5% compared with February 2014, while in February 2014 it had also amounted to 93.5%. In February 2015, the production volume in construction that had been on a steady decline since August 2013, amounted to 96.9% of its February 2014 level. The situation in the investment-and-construction complex was aggravated by the high cost of credit resources and the steady rise in prices for capital machinery and equipment, which went up by 8.3% in Q4 2014 and then by another 5.5% in January 2015.

The movement of the output of goods and services by basic type of economic activity indicate that at the beginning of 2015 the consumer market ceased to be the leading factor of growth, a position it had held for three years in a row.

Over the course of 2014 the growth rate of the consumer market experienced a steady decline. At the beginning of 2015, things went from bad to worse: in

February the decline in the growth rate gave way to a 7.7% drop in retail turnover and a 1.5% drop in the provision of paid services to the population compared with February 2014. It should be noted that the more rapid shrinkage in retail turnover in early 2015 was also determined by the market's knee-jerk response to the unprecedentedly high growth rates of consumer demand during the last two months of 2014. Consumer behavior was heavily influenced by the uncertainty of the economic situation and high inflation risks, which also produced a heavy impact on the structure and volume of personal consumption expenditures. In February 2015, the retail turnover of the food commodities market and the non-food commodities market dropped respectively by 7.9% and 7.7% in annual terms. Apparently, in January–February 2015, the situation on the consumer market was determined to a considerable degree by the stockpiles of goods purchased by the population during the last two months of 2014 (a period characterized by feverish consumer demand), and the level of consumer demand saturation achieved over recent years. These two factors will most likely continue to produce impact on the behavior of sales during the next few months. It should be noted that the behavior of the consumer market was also heavily influenced by the high rate of inflation and the massive weakening of the ruble's exchange rate vis-à-vis major foreign curren



Source: Rosstat.

Fig. 1. The Movement of the Physical Volume of Output, by Basic Type of Economic Activity, in 2014–2015, as % of the Same Period of the Previous Year

cies. In February 2015, food prices grew by 10.6% on December 2014 and by 26.1% on February 2014, while the prices of clothes and footwear increased respectively by 2.8% and 8.5%, and those of household appliances and necessities – by 6.4% and 15.6% respectively.

The behavior of consumer demand was considerably influenced by the gradual stagnation of the population’s real incomes and the ongoing growth in the household debt service burden, as well as by the fact that a very significant proportion of ruble-denominated incomes continued to be converted into foreign exchange.

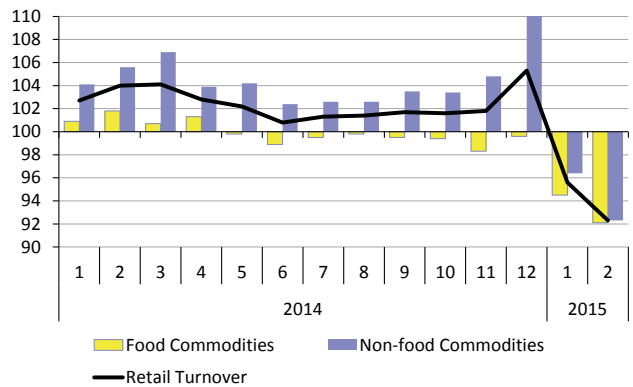
In January–February 2015, the population’s real incomes registered a decline. In February 2015, the population’s real wages and real disposable income amounted to 90.1% and 99.4% of February 2014’s levels.

At the beginning of 2015, Russia’s slump in industrial manufacturing visibly intensified. In February 2015, the Industrial Production Index amounted to 98.4% in annual terms. As far as mineral resources extraction is concerned, at the beginning of 2015, the growth rate in annual terms remained in positive zone, although the corresponding positive trend slightly weakened. In January and February 2015, the growth rate of mineral resources extraction expressed in annual terms amounted to 1.3% and 0.2% respectively.

At the beginning of 2015, Russia’s processing industries displayed a shrinkage of production. In February 2015, the Manufacturing Output Index amounted to 97.2% in annual terms vs. 103.4% in annual terms in February 2015.

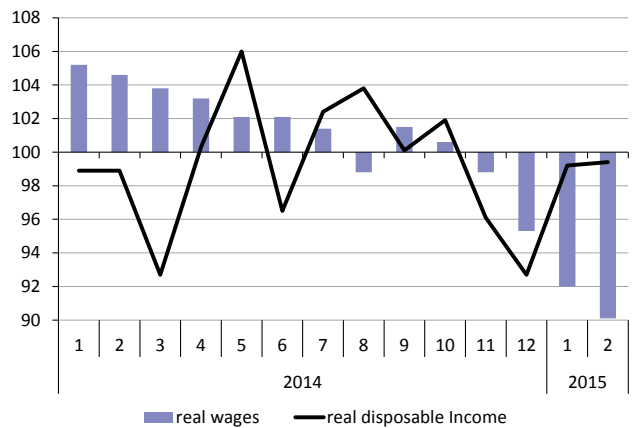
The behavior of Russia’s processing industries was heavily differentiated by type of economic activity. Capital goods production was hard hit by low investment demand. In February 2015, the Machinery and Equipment Index and the Electric, Electronic and Optical Equipment Index amounted respectively to 87.2% and 93.1% of their last February’s levels. Bearing in mind that the above-mentioned types of economic activity display various negative trends for a second year in a row, the situation in this field in the first two months of 2015 cannot but cause concern.

In February 2015, transportation equipment manufacturing dropped by 22.4% on February 2014, while in January–February 2015 it shrank by 17.6% on the same period of last year. At the same time, manufacturing of motor vehicles, trailers and semi-trailers dwindled on the same periods of 2014 by 27.8% and 20%. In February 2015, the output of passenger cars and trucks amounted respectively to 83% and 62.8% of last February’s levels. It should be noted that the slump in motor vehicles manufacturing was determined to a considerable degree by the weakening demand for such goods. During February, sales of pas-



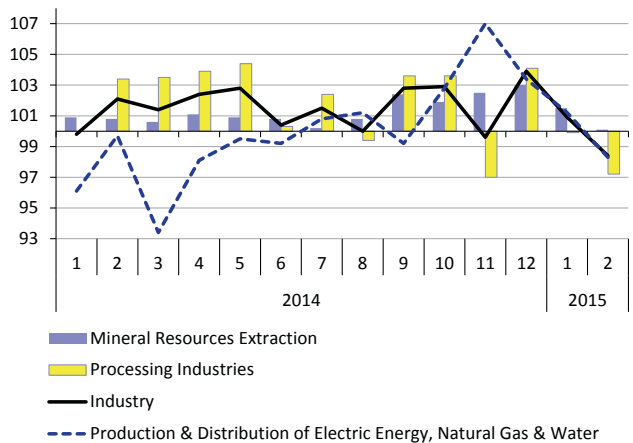
Source: Rosstat.

Fig. 2. The Movement of Retail Turnover in 2014–2015, as % of the Same Period of the Previous Year



Source: Rosstat.

Fig. 3. The Movement of the Population’s Real Incomes in 2014–2015, as % of the Same Period of the Previous Year

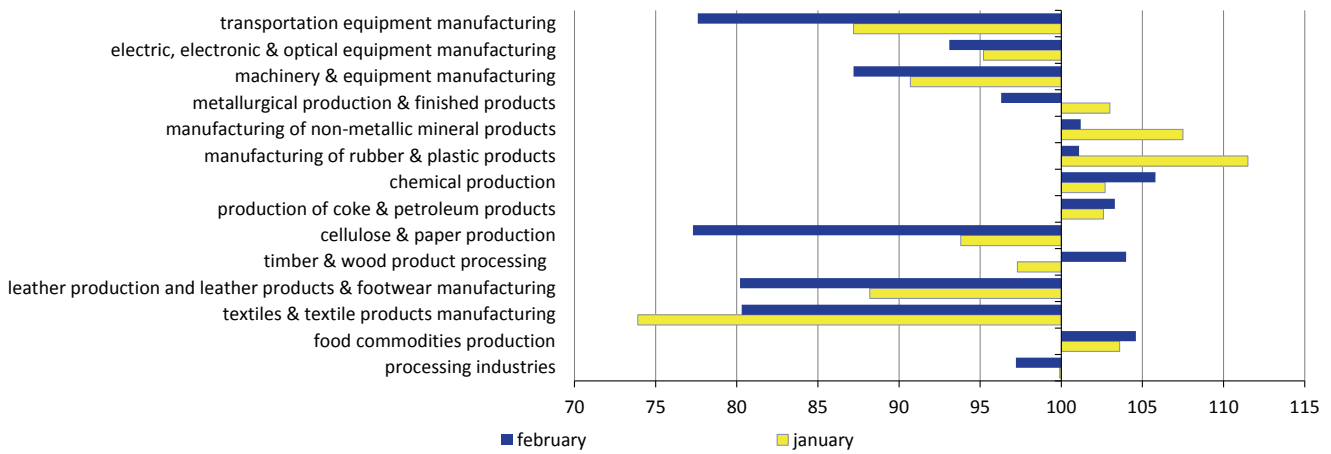


Source: Rosstat.

Fig. 4. The Movement of Industrial Production Indices, by Type of Economic Activity, in 2014–2015, as % of the Same Period of the Previous Year

senger cars and light commercial passenger carriers dropped by 37.9% in annual terms<sup>1</sup>. Bearing in mind the difficult situation in the Russian auto industry, the

<sup>1</sup> According to information released by the European Business Association. [http://aebus.ru/ru/press/sales\\_of\\_cars.php?ELEMENT\\_ID=1746500](http://aebus.ru/ru/press/sales_of_cars.php?ELEMENT_ID=1746500)



Source: Rosstat.

*Puc. 5. The Movement of Production Indices, by Major Type of Processing Industries, in January and February 2015, as % of the Same Months of 2014*

RF Government approved the spending of a further Rb 5bn in addition to the previously approved allocation of Rb 10bn designed to extend its car-buying incentive program into Q2 2015. The RF Government also announced that it would allocate funds to reduce the cost of leasing and subsidize interest on auto loans issued to enterprises and individuals irrespective of the vehicle’s category. A further Rb 11bn would be allocated to finance the purchase of cars by the federal executive authorities of the Russian Federation.

The intermediate commodities segment witnessed an increase in petroleum products manufacturing, which climbed to 103.3% of last February’s level. In February 2015, chemical production and rubber and plastic products manufacturing also increased on last February’s levels. It should be noted that as far as chemical production is concerned, the positive behavior in annual terms displayed by it in February 2015 can be attributed to an increase in the output of agrochemical products (117.2%) and in the output pharmaceutical products (117.7%).

During the first two months of 2015, Russia’s consumer goods manufacturing industry displayed multi-vector trends, reflecting the specificity of its branches. In February 2015, having experienced an acceleration

of manufacturing slump, textiles and textile products manufacturing dropped to 80.2% of last February’s level, while leather production and leather products and footwear manufacturing declined to 80.8% of last year’s level. At the same time, household appliances manufacturing increased to 107.9% of last February’s level. In January–February 2015, the growth rate of food commodities production increased to 104.1 of last year’s level, while in January–February 2014 it increased to 100.4% of its level in 2013.

At the beginning of 2015, the demand for workforce displayed a downward trend. In February 2015, the number of unemployed (as estimated by the ILO methodology) grew on the same period of 2014 by 1.5%, to 4.4m (or 5.8% of the economically active population). As of February 2015, 1.0 million persons were registered as unemployed at the local bodies of the Federal Service for Labor and Employment, which amounted to 1.3% of the economically active population (vs. 1.5% one year earlier). In February 2015, the total number of unemployed grew by 5.8% on the previous month, which should set alarm bells ringing, especially bearing in mind that Russia’s manufacturing slump is gaining momentum and the living standards of her population display an accelerating downward trend. ●