

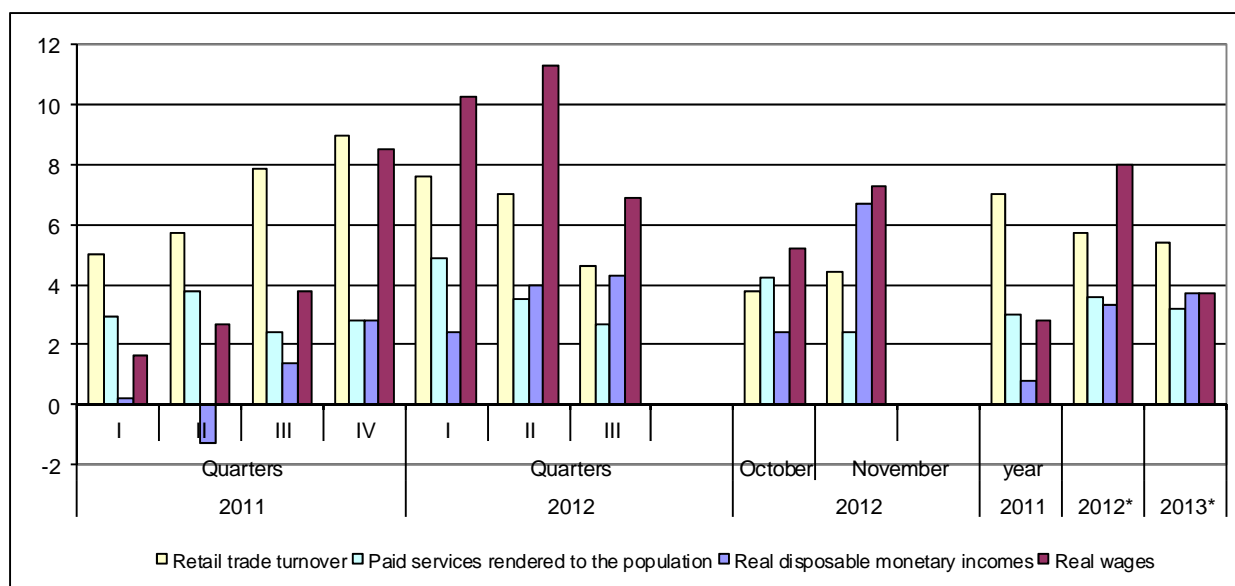
Olga Izryadnova

## Real Economy: Trends and Factors

*As compared with November 2011, in November 2012 the investments in fixed assets increased by 1.1%, and the workload in construction - by 0.3%. The industrial production growth rates made 101.9% against November 2011, growth rates in manufacturing industry being 104.0%. The dynamics of manufacturing industry development is significantly affected by the weakening of the machine-building complex growth rates. Positive dynamics of the general and registered unemployment is also worrying this November as compared with the previous month. In November 2012 the economic growth slowing down, the real income of the population increased by 6.7% and real wages - by 7.3% compared to November 2011*

According to the RF Ministry of Economic Development estimations, GDP growth will slow down from 102.9% in Q3 2012 to 102.5% in Q4 2012 versus the corresponding period of the previous year and will make 103.5% as a result of the year. The situation in agriculture has a negative impact on economy dynamics. In November 2012 the agricultural output equaled 92.6% of the corresponding figure of 2011 (95.8% in January-November). In general, for 2012 the RF Ministry of Economic Development lowered the estimates for the agriculture production index from 95.6% to 94.7%.

This year quarterly dynamics of retail trade turnover demonstrates that the decline in the growth rates of the real income of the population and real wages was accompanied by a gradual slowdown in consumer demand growth rates. Acceleration of the inflation starting with H2 2012 due to the changes in prices and tariffs for paid services rendered to the population also had a negative impact on consumer demand. In Q3 2012, the retail trade turnover increased by 4.6% versus the corresponding period of the previous year as compared with 7.9% a year ago. In November 2012, the growth rate of the retail trade turnover made 104.4% compared to November 2011 (109.1% a year ago) and 106.0% in 11 months of this year compared to January-November of the previous year (106.8 % a year ago). In H2 2012 slowdown of the growth rates was recorded both at the goods and at the services market. Peak demand for services was observed in H1 2012, and in November 2012 the growth rate of services sector was 102.4% compared to November 2011.



\*)2012 – preliminary data; 2013 – projected

Source: RF Ministry of Economic Development, Federal State Statistics Service

**Fig. 1. Dynamics of Retail Trade Turnover, Paid Services Rendered to the Population, Growth Rates versus the Corresponding Period of the Previous Year, as Percentage**

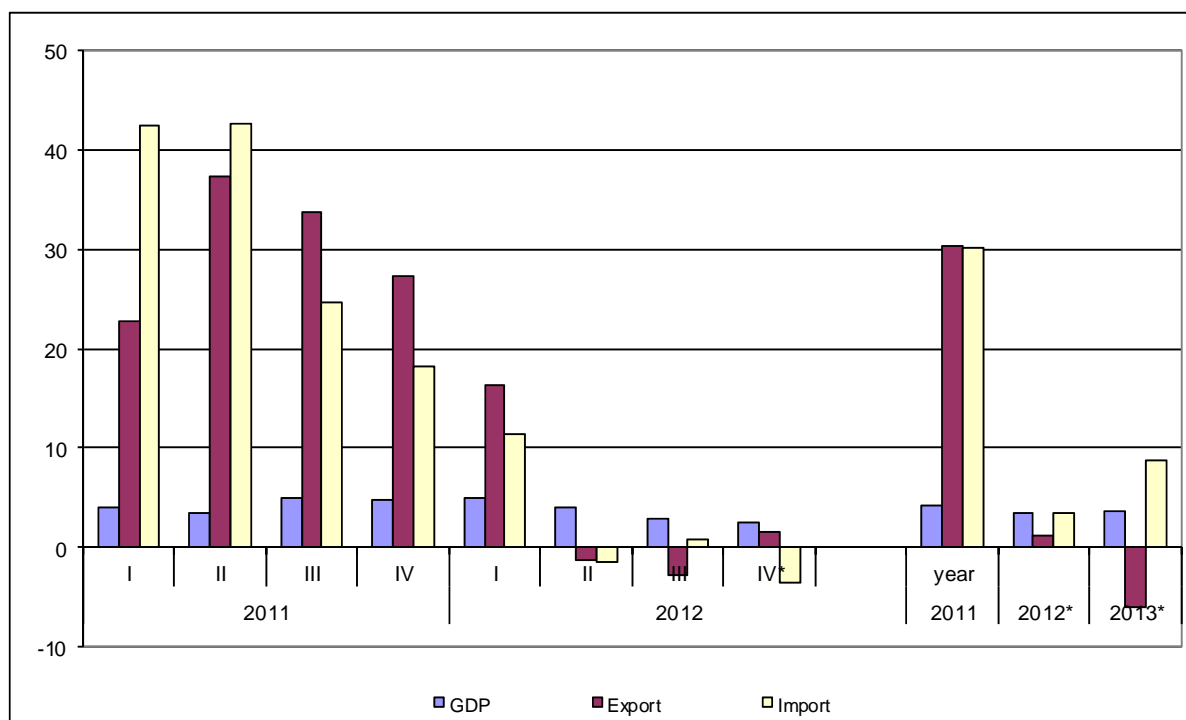
The RF Ministry of Economic Development, taking into account the current trend in the consumer demand in October and November, corrected the estimations of the macroeconomic indicators for the current year, and parameters of the forecast for next year. In 2012 according to the RF Ministry of Economic Development, the retail trade turnover growth rate will make 105.7% as compared to the previous year (a decrease of 0.4% compared with the data published earlier), but the outlook for 2013 is maintained at the same level - 105.4% for the time being. The growth rate of the market of paid services according to the corrected data will be 103.2% (an increase of 0.2%). According to the revised estimates, the growth rate of consumer prices will be 106.5% in 2012 (the previous estimation by the RF Ministry of Economic Development - 107.0%). On the whole over 2012 the growth rate of real wages is expected to be at the level of 108.0%, which is 1.1% lower than the previously published figure. At the same time the estimations of the real income of the population growth rates were raised by 0.3% up to 103.3%. The forecast for social parameters of living standards for 2013 will remain the same: the growth rates of both the real incomes of the population and the real wages are 103.7% versus 2012 figure.

Anticipating growth of wages by 5.4% versus labor productivity (preliminary estimation for 2012) results in an increase in the production costs and reduction of the financial and economic performance of enterprises. The proportion of gross profits in the GDP was 26.2% in H1 2012, being 1.7% lower than in 2011. In January-September profitability of sold products on the whole throughout the economy made 10.0% (11.2% in 2011), the figure for the extractive industry being 32.6% (36.4% in 2011), in manufacturing industry - 11.9% (13.4%).

Despite the increase in the growth rates of investment up to 110.3% in January-September 2012 compared with the same period of the previous year (105.0% a year ago), their impact on the annual dynamics of the GDP has weakened considerably. In October-November 2012 the investment activity being low, the expected estimation of the investment growth in Q4 2012 is 103.7% compared to Q4 2011. As a result, the growth rate of investment in fixed assets

in 2012 is estimated by the RF Ministry of Economic Development at the level of 107.8% versus 108.3% in the previous year. Unsteady dynamics and absence of qualitative changes in the investment activity in 2012 also affected the forecast for 2013. According to corrected data of the RF Ministry of Economic Development, in 2013 the investment growth is expected to slow down to 106.5%, which is 0.7% below the projected figure adopted to determine the parameters of the budget for 2013.

In 2012 the macroeconomic situation was considerably influenced by the decrease in the foreign trade turnover growth rates in Q2 and Q3 2012, which strengthened the trend towards the GDP growth rates deceleration. Taking into account the growth of the foreign trade turnover in October 2012 versus the corresponding month of 2011 and the preceding month of the current year, the RF Ministry of Economic Development holds that in Q4 2012 the positive dynamics might recover thanks to the export supplies. According to its latest estimations, export value volume will expand by 1.2%, import value volume – by 3.5%, physical volumes – by 0.4% and 5.5%, correspondingly (-1.3% as compared with the estimations used earlier). Given the corrected dynamics for 2013, it is forecast that the value volume of the foreign trade turnover will decrease by 0.5% as compared with the previous year. At the same time next year import value volume (108.8%) is expected to grow at anticipating growth rates as compared with the export (93.7%).



\*)2012 – preliminary data; 2013 – projected

Source: RF Ministry of Economic Development, Federal State Statistics Service

**Fig. 2. Dynamics of Export and Import Value Volumes and GDP Real Volume, as Percentage to the Corresponding Period of the Previous Year**

In January-November 2012 the industrial production index made 102.7% compared to 105.0% in the previous year, in minerals extraction being 101.2% versus 101.9%, in the manufacturing industry - 104.4% versus 106.8%. At the same time, in November 2012 compared

with the previous month the decline in the output volume of extractive and manufacturing industries was observed when compared with October 2012 by, respectively, 2.2% and 0.3%.

In 2012 annual growth rate of the manufacturing industry will reach 104.3% versus the previous year. It was the foodstuff production, production of rubber and plastic goods, construction materials production that grew at faster rate as compared with the previous year. Since the post-crisis dynamic recovery of machine-building has had a significant impact on the aggregated indices of manufacturing industry development, it should be noted that this year the machine-building complex growth rates will make 107.5% versus 114.5% in 2011. It is worth mentioning that in 2012 it was only the production of transport vehicles and equipment that reached the pre-crisis level of 2007. In 2012 machinery and equipment production as well as electric, electronic and optical equipment production remain about 15% below the figure of 2007.

As to the production of consumer goods, sustainable growth was recorded only in food production. Textile and sewing industry, as well as leather, leather goods and footwear production are contracting as compared with the previous year. Given the existing dynamics of the consumer goods production, the proportion of the domestic products is decreasing in the structure of the retail trade resources. It should be noted that in contrast to 2011 this year the share of imported goods in the resources of the foodstuffs retail market has been observed to increase.

The RF Ministry of Economic Development has downgraded the estimates for the industrial growth to 103.2% in 2012 (-0.4% with respect to the figures published previously). The correction concerned virtually all manufacturing industries: estimations were lowered for of machinery and equipment production (by 3.2%), transport vehicles and equipment production (by 2.2%) and the production of other non-metal mineral products (by 1.1%).

According to the corrected forecast for 2013, the industry growth rate was maintained at 103.6%, of manufacturing industries – at 105.1% compared to the previous year, with the anticipating growth of the chemical and machine-building complexes. It should be noted that the dynamics of the machinery and equipment as well as construction materials production in 2013 is below the growth rates of investment in fixed assets, which indicates the expansion of imports for these types of products.