

RUSSIA'S REAL SECTOR OF THE ECONOMY IN JULY–AUGUST 2015: FACTORS AND TRENDS

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Worsening of the rates of the economic slump in July–August 2015 was justified by a decrease in the internal demand. In August 2015, the volume of investments in capital assets fell by 6.8%, while the volume of the retail trade turnover, by 9.1% as compared to August 2014. Due to shrinkage of the domestic market, the trend of reduction of industrial output consolidated. In August 2015, the industrial production index amounted to 95.7%, including 93.2% year-on-year in the manufacturing industry. The situation is complicated greatly by consolidation of the trend of growth in the rate of unemployment by 8.9% as compared to August 2014.

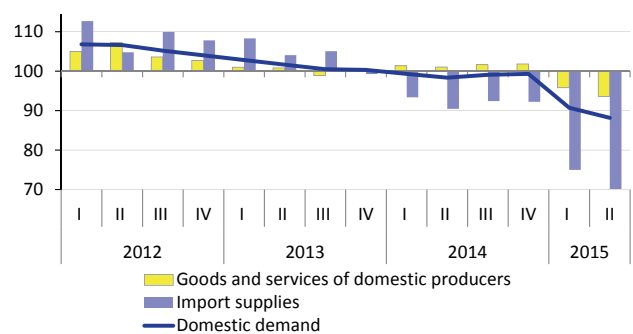
Reduction of the Russian GDP amounted to 3.5% in H1 2015; it is to be noted that slump in Q1 and Q2 amounted to 2.2% and 4.6%, respectively, as compared to the respective period of the previous year.

In the past two years, the economic situation is determined by a simultaneous reduction of investment and consumer demand. In August 2015, the volume of investments in capital assets fell by 6.8%, while the volume of jobs in building, by 10.7% as compared to August 2014. In August 2015, a long period of slow-down of growth rates of the consumer market gave way to a slump of 9.1% and 3.1% year-on-year in the retail trade volume and the volume of paid services to households, respectively.

An uncertain economic situation and high inflationary risks affected the consumer behavior: both the pattern and the volume of households' expenditures changed. In H1 2015, households' expenditures amounted to 91.3% of the index a year before. In August 2015, the volume of the retail market of food products and non-food products decreased by 10% and 8.3% year-on-year, respectively. The dynamics of the consumer market was greatly affected by a high rate of inflation and weakening of the official exchange rate of the ruble against foreign currencies. In August 2015, a factor behind consolidation of shrinkage of consumer demand is a drop of 4.9% in households' real income, including 9.8% year-on-year in real wages and salaries.

In H1 2015 the situation on the domestic market was formed by a simultaneous decrease of 5.3% (in terms of SNA) and 27.5% in domestic production and imports, respectively, against the respective indices of the previous year.

Shrinkage of domestic demand contributed to consolidation of the trend of reduction of industrial output by 4.3%, including 6.8% in the manufacturing industry as compared to August 2014. Year-on-year positive dynamics in August 2015 was registered only in production of charred coal and petrochemicals (101.4%), the chemical industry (104.1%) and production of food



Source: The Rosstat.

Fig. 1. Dynamics of GDP by components in the 2012–2015 period, % of the respective quarter of the previous year

products (100.4%). However, it is to be noted that in the above lines of business there was a substantial slow-down of year-on-year dynamics.

The dynamics of industrial output is differentiated greatly by the type of business activities. If initially the complex of industries of intermediate demand with a high share of export-oriented production reacted to growth in prices as a result of depreciation of the ruble by renewal of output growth, from April 2015 a slump in that segment of manufacturing has been registered. An additional factor behind aggravation of slump in the segment of goods of intermediate demand was a decrease in demand on assembly of the machine-building complex producing a broad line of foreign brand goods with a low level of localization of production. A decrease in output of domestic goods of intermediate demand resulted in structural changes in import: in H1 2015 the unit weight of intermediate goods in the total volume of import rose to 42.9% against 38.9% a year before.

A drop in production and import of capital goods was justified by low investment demand. In H1 2015 the share of investment goods in import fell by 3.3 p.p. as compared to H1 2014 with aggravation of rates of shrinkage of import by quarters of the current year. In August 2015, in the machine-building complex there

was a drop in the following indices: domestic production of machines and equipment fell to 85.3%, production of electric, electronic and optical equipment, to 83.5% and production of transport machinery, to 83.3% as compared to the respective period of the previous year. Shrinkage of investment activities was justified by reduction of demand on building and engineering materials, too. In August 2015, the index of production of building materials and that of metallurgical complex amounted to 89.2% and 93.9%, respectively, as compared to August 2014.

Table 1

THE UNIT WEIGHT OF CONSUMER, INVESTMENT AND INTERMEDIARY GOODS IN THE TOTAL VOLUME OF IMPORT, %

	Goods		
	consumer	investment	intermediary
2014			
Q I	38.3	23.1	38.6
Q II	34.7	26.1	39.2
Q III	35.6	23.4	41.0
Q IV	36.5	25.2	38.3
Year	36.1	24.5	39.4
2015			
Q I	36.4	21.4	42.2
Q II	35.1	21.4	43.5

Source: The Rosstat.

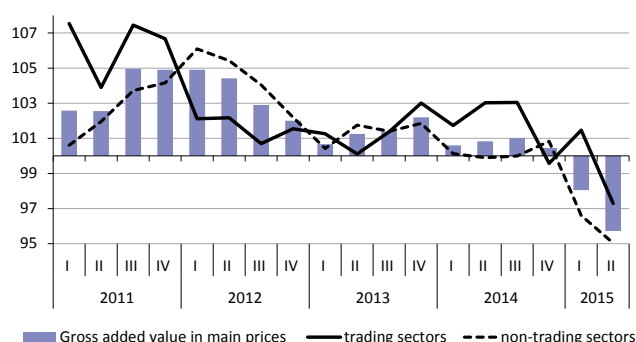
The consumer complex is characterized by rather unstable dynamics. In H1 2015, in the pattern of import the unit weight of consumer goods in the total volume of import amounted to 35.7% and fell by 0.7 p.p. as compared to the respective period of the previous year. Shrinkage of import with dramatic growth in prices on import goods contributed to expansion of the niche for domestic goods on the internal market. In the pattern of commodity resources of the retail trade turnover, in H1 2015 the share of domestic goods amounted to 62.5%, including that of food products (68.5%) which is 4.5 p.p. higher than the index of the respective period of the previous year (Table 2).

Table 2

THE PATTERN OF COMMODITY RESOURCES OF THE RETAIL TRADE, % IN ACTUAL PRICES

	Commodity resources of the retail trade	including	
		Domestic production	Import supplies
2014			
Q I	100	57	43
Q II	100	59	41
Q III	100	59	41
Q IV	100	56	44
Год	100	58	42
2015			
Q I	100	61	39
Q II	100	64	36

Source: The Rosstat.

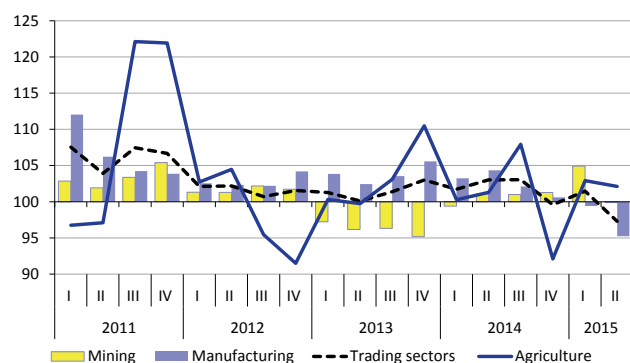


Source: The Rosstat.

Fig. 2. GDP dynamics by trading and non-trading sectors of the economy in the 2011–2015 period, % of the respective quarter of the previous year

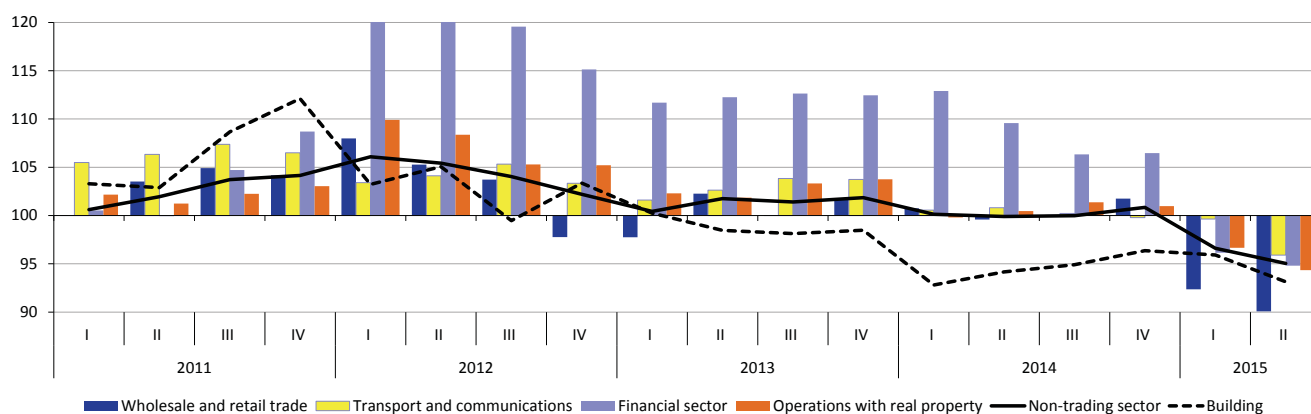
In July–August 2015, the dynamics of the primary sector was in the positive zone. In August 2015, growth in mining amounted to 0.7%, including 0.4% year-on-year in production of fuel and energy resources. Advanced growth in supplies of crude oil to the international market as compared to the dynamics of domestic refinery was typical of the fuel and energy complex in 2015. In January–August 2015, production of oil and export of oil rose by 1.4% and 7.3%, respectively, and crude oil refining amounted to 98.4% against the respective index of 2014. A drop in production of gas (95.6% against the index of January–August 2014) was justified both by a decrease in supplies to foreign markets (93.0%) and reduction of domestic demand (96.4%).

Analysis of the dynamics and the pattern of industrial GDP showed that the trading sectors (mining, manufacturing and agriculture) remained the factor behind containment of adverse developments. That can be explained by differences in dynamics by the type of economic activities: in H1 2015 a 2.4% growth in added value produced in agriculture and mining as



Source: The Rosstat.

Fig. 3. Dynamics of gross added value in the trading sector of the economy in the 2011–2015 period, % of the respective Q of the previous year



Source: The Rosstat.

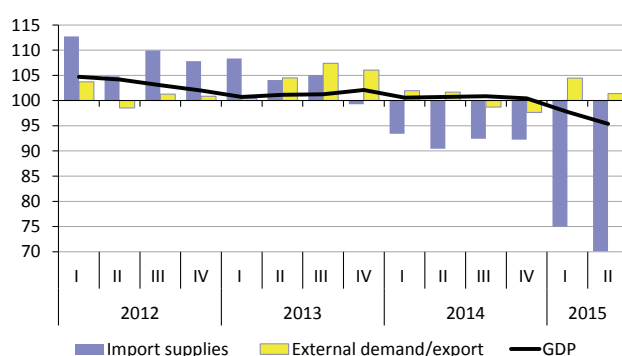
Fig. 4. Dynamics of gross value added in the non-trading sector of the economy in the 2011–2015 period, % of the respective period of the previous year

compared to the respective period of the previous year mitigated the effect of a 2.8% drop in the rates of production of gross added value in manufacturing.

From 2013, slowdown of the dynamics of the non-trading sectors of the economy started to affect considerably the dynamics of GDP. In H1 2015, for the first time from 2009 a 4.2% drop in production of gross value added of the non-trading sector of the economy as compared to the respective index of the previous year was registered. A drop in the rates of the value added of the non-trading sector of the economy is registered by all the aggregated types of activities observed. In H1 2015, intensification of a slump in building and investment activities resulted in a 13.5% drop in revenues from operations with real property as compared to the same period of 2014. In H1 2015, a 8.8% reduction of the rates of wholesale and retail trade as compared to the respective period of the previous year with a speed-up of negative quarterly dynamics was registered.

In H1 2015, a factor which contributed to easing of the adverse effect of a drop in domestic demand on the dynamics of GDP was the net export whose dynamics was determined by higher rates of reduction of import as compared to the dynamics of supplies of Russian goods to foreign markets.

The existing dynamics of production had a negative effect on the situation on the labor market. As compared to August 2014, the number of the unemployed rose by 18.9% and amounted to 4,067,000 persons. However, in April–August 2015 a decrease was registered both in the rates of general unemployment



Source: The Rosstat.

Fig. 5. Dynamics of GDP by components in the 2012–2015 period, % of the respective quarter of the previous year

and registered unemployment after a surge in March when the level of general unemployment amounted to 5.9% and was the maximum one since February 2013. In August 2015, the level of general unemployment (according to the ILO methods) amounted to 5.3% against the index of 4.8% a year before.

Adaptation of the Russian labor market to crisis conditions proceeds through utilization of flexible schemes of labor remuneration, rather than growth in the rate of unemployment. With an underdeveloped contract system in the sphere of labor relations and low unemployment benefits, workers prefer to work during the crisis for a smaller remuneration and have shorter work days. In addition to the above, applicants have fewer claims when looking for vacant jobs. In Q2 2015, the average number of workers who worked half-time and were on unpaid leave amounted to 2.5% and 7.2%, respectively. ●