

THE GEOGRAPHY OF CRISIS: ECONOMY, EMPLOYMENT, INCOME¹

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Analysis of the regional data for the first 6–7 months of 2015 leads to the conclusion that the current crisis bears no resemblance to the two previous crises, in 1998 and 2008. Not only does the current crisis show slower decline rates, but it is also geographically diffused. The dynamics of the key socio-economic indicators shows problems building up in the manufacturing regions and the largest cities in Russia.

The key socio-economic indicators stabilized in June–July following a deep slump in January–May 2015. The data on Russia as a whole fail to reflect the regional differences arising primarily out of the economic profiles of the regions.

Industry. The industrial output saw negative dynamics in 35 regions in the period between January 2015 and July 2015. The geography of the decline in the regions is basically industry-specific. A deeper-than-expected decline was seen for manufacturing enterprises (4.9% down in January–July 2015), whereas mineral extraction sectors were relatively stable (0.1% up during the same period).

Most plagued with problems were regions specializing in transport engineering (manufacture of cars and railway cars), other subsectors of civil engineering and industries which manufacture investment products such as construction materials etc. The deepest decline in output was observed in the federal cities and the regions in which new car assembly facilities

are located, namely the Kaliningrad and Kaluga Regions (Fig. 1). Additionally, semi-depressed regions, namely the Kostroma, Ivanovo, Tver, Kurgan, Amur Regions were hit most by the crisis. The regional picture has not changed since May 2015, when it shaped up.

Output increased in the regions in which a big number of MIC (Military Industrial Complex) enterprises are located, namely the Tula, Bryansk, Vladimir, Yaroslavl Regions, the Republic of Marij El, the Kirov, Penza, Ulyanovsk Regions. The increase was also supported by higher volumes of the government contract which is financed with the federal budget. The Tyumen Region continued to see growth due to its strong investment attraction policy which resulted in the commissioning of new manufacturing enterprises. Industrial growth was also seen in new eastern regions of hydrocarbon production (the Sakhalin, Irkutsk Regions, the Republic of Sakha Yakutiya) and in the Nenets Autonomous Area. However, the dynamics of the leading regions specializing in fuel and energy production and distribution and metallurgy was nearly zero or declined a bit. The Central and Far Eastern Federal Districts account for the biggest share of the regions facing a decline in output.

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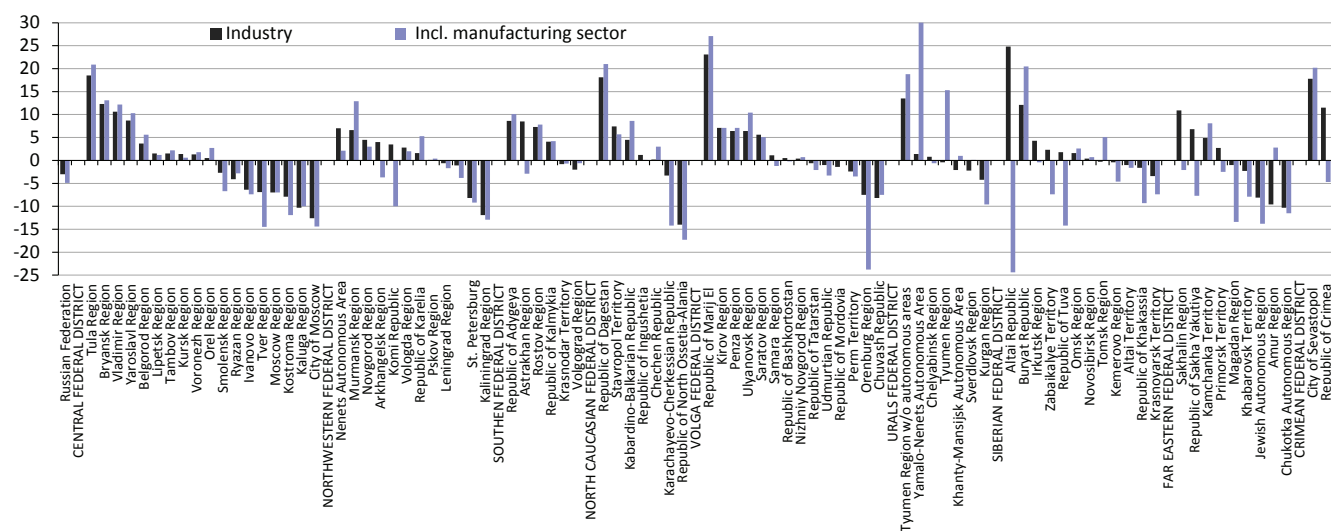


Fig. 1. Industrial output dynamics, percentage change, January–July 2014 to January–July 2015

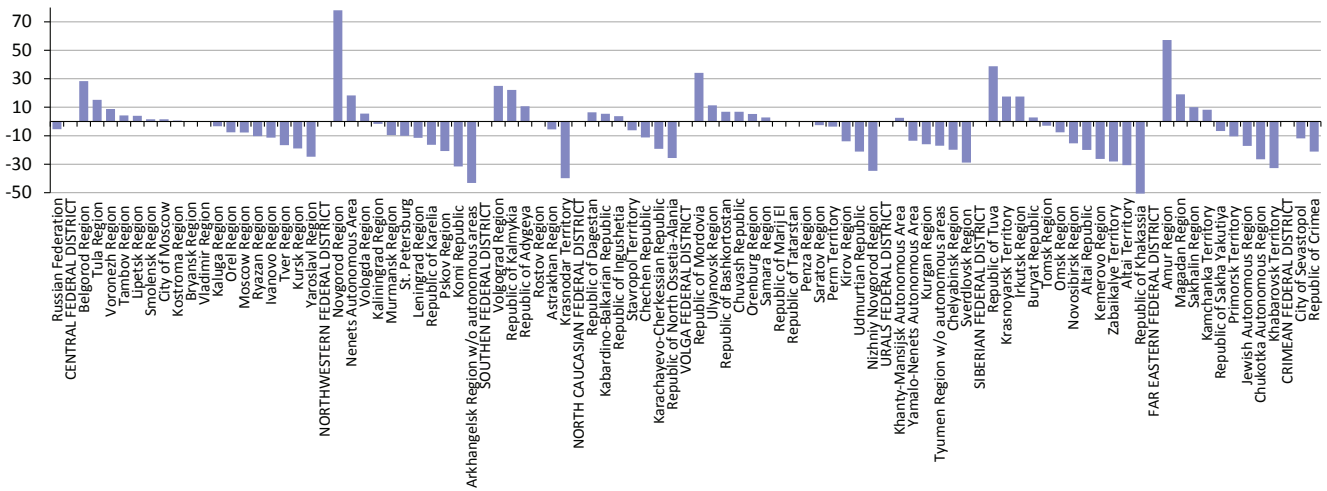


Fig. 2. Fixed investment dynamics, percentage change, H1 2014 to H1 2015

The decline in the manufacturing industry in January–July 2015 was fast, with negative dynamics in 45 regions. The deepest decline in the manufacturing industry was seen in the Orenburg Region (by almost 25% due to a decline in primary technological processing industries), the city of Moscow, the Tver and Kaliningrad Regions (14–15% down), the Kaluga and Kurgan Regions, the city of St. Petersburg and the Khabarovsk Territory (10% down), as well as in a few undeveloped republics and far eastern regions with low level of industrial output.

Investment. Investment saw a faster decline (5.4% down) in H1 2015, the number of regions with negative investment dynamics increased to 49, a total of 51 including the City of Sevastopol and the Republic of Crimea (Fig. 2). By contrast, in 2014 there were 32 regions with negative investment dynamics.

All of the regions facing the deepest decline (30–50% down) in investment in H1 2015 are specializing in industrial production: the Arkhangelsk, Nizhny Novgorod and Sverdlovsk Regions, The Komi Republic and the Republic of Khakassia, the Khabarovsk Territory. The strong decline in the Krasnodar Territory was caused by the high-base effect on the eve of the Winter Olympic Games in Sochi. The Urals, Siberian and Northwestern Federal Districts have the biggest share of the regions facing a decline in investment. Furthermore, investment declined by 20% in the Crimean Federal District due to barriers, including administrative ones, which impeded the implementation of the programs announced by the Russian government authorities.

The territorial structure of investment by federal district and leading regions in H1 2015 shows the real economic priorities of the federal government. The Central Federal District accounted for the biggest

share (23%) of investment, as well as the Urals and Volga Federal Districts (18–19%). The share of the Far Eastern Federal District is much smaller (6.4%), whereas that of the Crimean Federal District is the lowest (0.2%).

The Tyumen Region including autonomous areas was leading among the regions (15.2%), whereas the Khabarovsk Territory was leading among the regions (15.2%), whereas the Khanty-Mansiysk Autonomous Area and the Yamalo-Nenets Autonomous Area accounted for 7.6% and 5.7% of total investment, respectively. Hence *it is the production of oil and gas investment that kept attracting most of investment resources in Russia.*

Another leader was the city of Moscow (9.6%) which saw no decline in investment in H1 2015 compared to the city of St. Petersburg.

Retail trade. Russia’s retail trade slumped by almost 10% in the period between January 2015 and April 2015 and then stopped declining by May 2015. In January–July 2015 the retail trade across Russia declined by an average of 8%, in 77 regions (Fig. 3).

The deepest decline in retail trade was seen in industrial regions facing a deeper industrial downside, underemployment growth and, as a consequence, a decline in real wages (such regions as Ivanovo, Vladimir, Murmansk, Samara, Nizhny Novgorod Regions, Ulyanovsk, Chelyabinsk, Sverdlovsk, Kemerovo, the Komi Republic, the Republic of Tatarstan, the Republic of Bashkortostan, etc.), as well as in the federal cities and the regions with cities with a population over 1 million (Novosibirsk, Omsk Regions).

Geographically, per capita consumption declined most in the Urals, Volga, Siberian and Northwestern Federal Districts, i.e., in the industrial regions. The growth in consumption in some undeveloped republics and the Chukotka Autonomous Region only can be explained by a poor level of reliability of their statistical data.

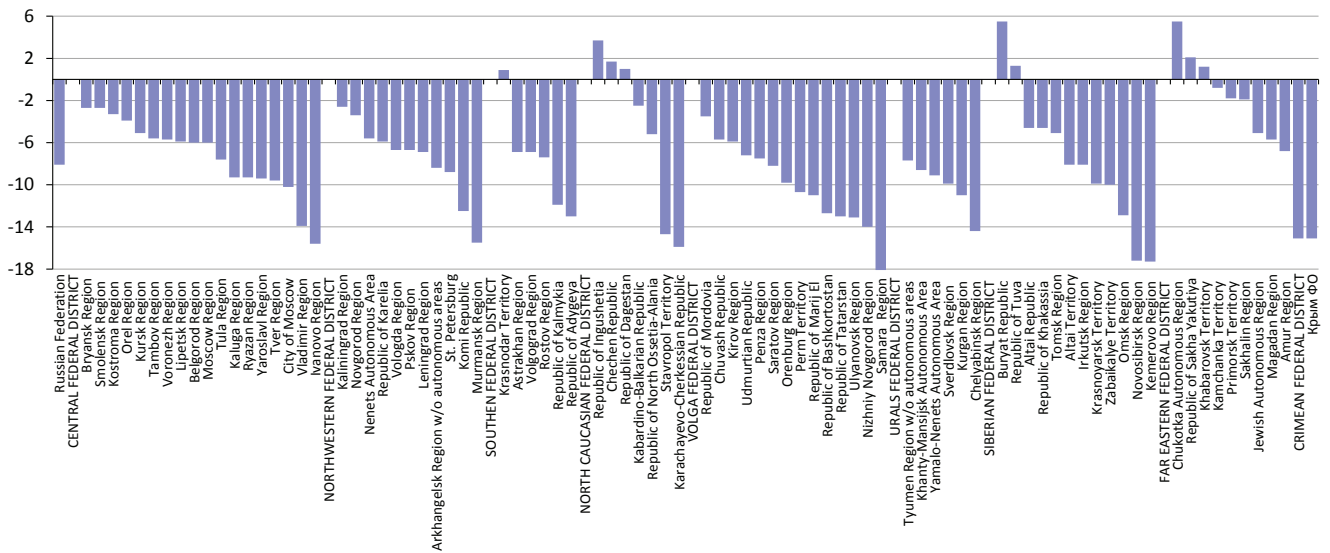


Fig. 3. Retail trade turnover dynamics, percentage change, January–July 2014 to January–July 2015

Employment. The unemployment rate remained insignificant, even declined in May–July 2015 compared the beginning of the year (from 5.8 to 5.4% of the work force). The summer decline was caused by the seasonal factor which is typical of Russia. The regional picture is quite good as well: the year-to-date unemployment rate, which is measured using the ILO methodology, reduced in an overwhelming majority of the regions (Fig. 4).

The labor market did not respond to further crisis development. The key reason which is well known from the previous crises is that *the Russian labor market is characterized by a specific response to economic downturns*. Underemployment (furloughs, layoffs etc.) is increasing rapidly amid moderate or small growth in unemployment, thereby reducing employers' costs. Russian

employees would rather see their salaries decrease than themselves being unemployed. Demography is the second reason: a small-numbered generation of persons born in the 1990s have emerged in the labor market, which are supposed to replace the more numerous generation of those born in the 1950s. The third reason is numerous labor migrants in the Russian economy, who (at least some of them) tend to leave or not to go to this country if there are no job vacancies, thereby helping to balance the demand and supply in the labor market.

Underemployment has been increasing slowly since 2014, but its magnitude differs largely between industries. According to the data of the Russian Federal State Statistics Service (Rosstat), the highest rate of underemployment in Q2 2015 was seen at manufacturing enterprises, especially those which manufacture vehi-

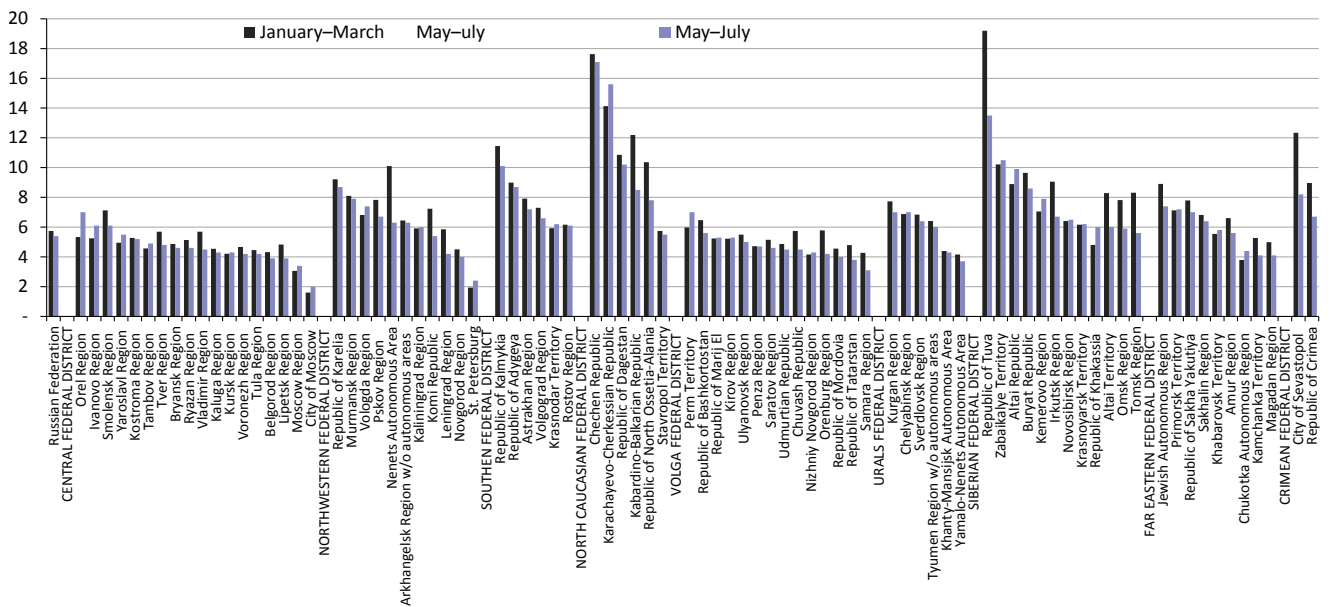


Fig. 4. Unemployment rate in 2015 calculated using the ILO methodology, as % of the work force

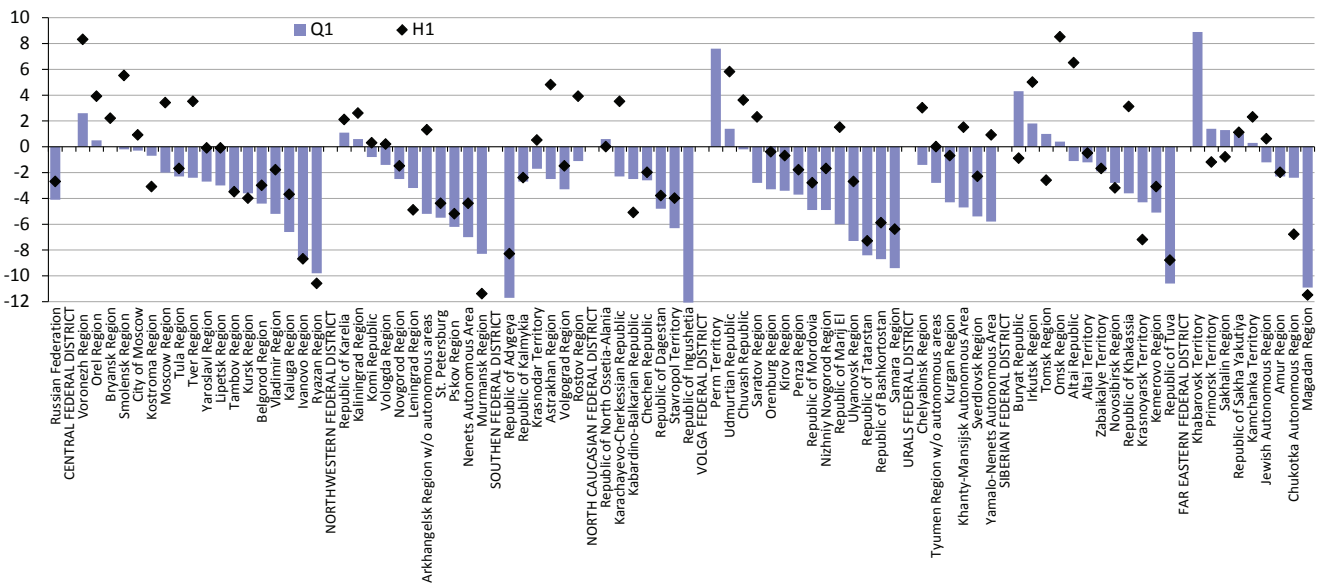


Fig. 5. Real personal money income dynamics, percentage change, 2014 to 2015

cles and equipment, as well as hotels and restaurants, in which the effective demand and the number of customers reduced most.

A higher-than-normal rate of underemployment such as leaves of absence without pay is typical of industrial regions such as the Urals and Volga Federal Districts and in some of the regions of the Central Federal District, as well as the Kaliningrad Region and the federal cities.

The geographical picture of underemployment is not clear yet, but it has become more and more apparent that *the current crisis is not just industrial*, the federal cities with their highly developed service sector have found themselves among the leaders in various forms of underemployment.

Personal income. Real personal money income in H1 2015 decreased by 4.1%, in 67 regions (no data are available on the Republic of Crimea). Regional figures of personal income are the least reliable among other indicators, which is especially true when the dynamics in Q1 and H1 are compared (Fig. 5). In any case, a general downturn trend is apparent.

It is more easier to explain the decline in personal income in the depressed regions (the Ivanovo Region) and the regions in which car assembly/manufacturing enterprises are located (the Kaluga and Samara Regions), but the lowest decline in income in the Ryazan, Murmansk and Magadan Regions, and the Republic of Bashkortostan only can be explained by measurement flows. Even less reliable is the dynamics of personal income in the undeveloped republics (the Republics of Tuva, Adygeya and Ingushetia) due to a big share of shadow economy. Furthermore, the data for the regions with growth in real personal income (the Khabarovsk Territory, the Perm Territory, the Buryat Republic, Republic of Karelia, Udmurtian Republic, Orel Region etc.) are of poor reliability.

Nevertheless, the geographical picture has gradually become more clear – the deepest decline in real personal income is typical of the regions with manufacturing industries such as the Volga and Central Federal Districts, as well as the regions within the Northwestern Federal District, in which the crisis-hit economic downturn began as early as in 2014.