

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

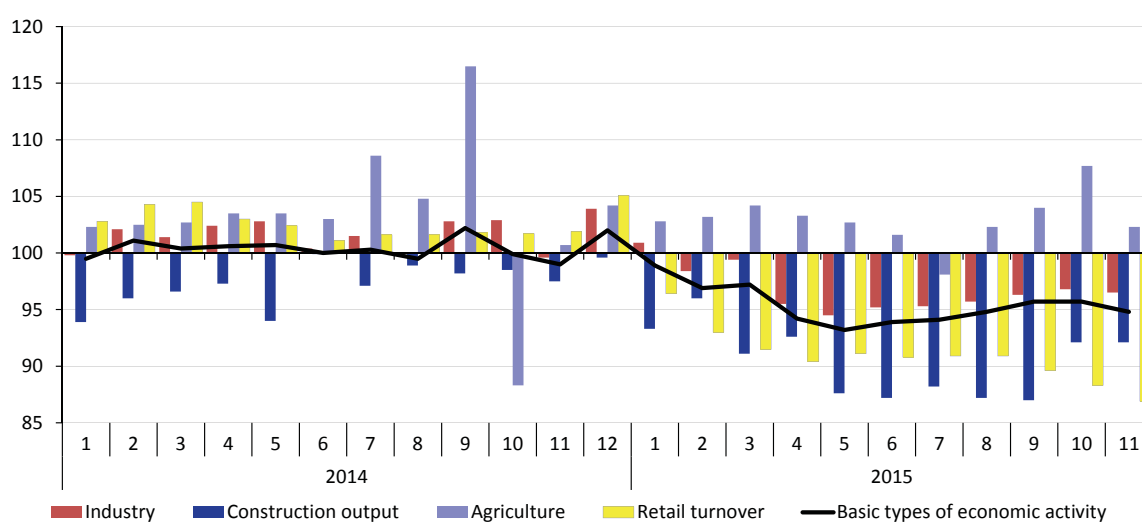
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In November 2015, the economic dynamics' downward trend gathered momentum. Annual industrial production index in November 2015 amounted to 96.5%, including manufacturing sector – to 94.7%. Fixed capital investment in November of the current year contracted by 4.9% against November 2014 amid more profound rates of contraction registered in the construction sector. In November 2015, the consumer demand of the population is falling in the wake of compression of real income of the population by 5.4% and real wages by 9.0% in annual terms.

In November 2015, production fall has intensified across basic types of economic activity (Fig. 1).

Agriculture has made a positive contribution to the economic dynamics this year (production growth in November 2015 against the same period last year constituted 2.3%) together with freight turnover growth (by 3.2% due to sea, pipeline and railway transport).

The factors of production are being used with low efficiency, which remains one of the main reasons for declining rates of economic growth and fall of the Russian economy competitiveness. Over a prolonged period the Russian economy posts reduction of commissioned fixed assets per investment unit and return on assets. In November 2015, contraction of fixed capital investments came to 4.9% and the scope of work in construction fell by 7.1% in annual terms. The situation in the investment-and-construction complex is aggravated by the high cost of credit resources and a steady rise in prices for capital machinery and equipment and slack demand on the real estate



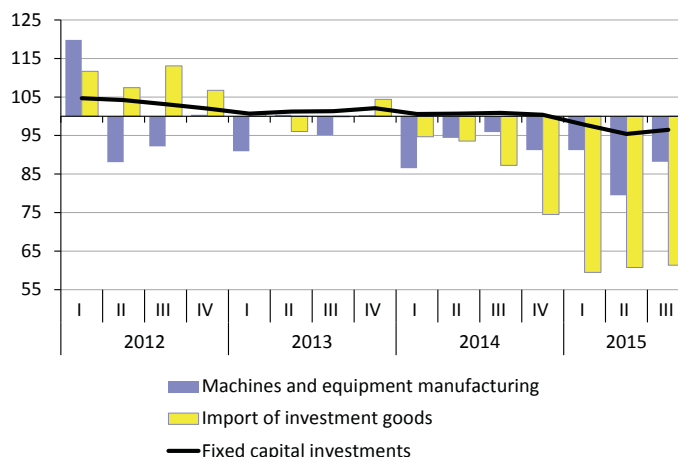
Source: Rosstat.

Fig. 1. The Movement of basic types of economic activity in 2014–2015, % to corresponding month of previous year

market. In November 2015, commissioning of new housing came to 98% of the corresponding indicator last year. Housing mortgage loans in January–November 2015 fell by about 40% on the indicator a year ago, and the share of commissioning of living space out of population's funds in the total volume of housing shrank by more than 1 p.p.

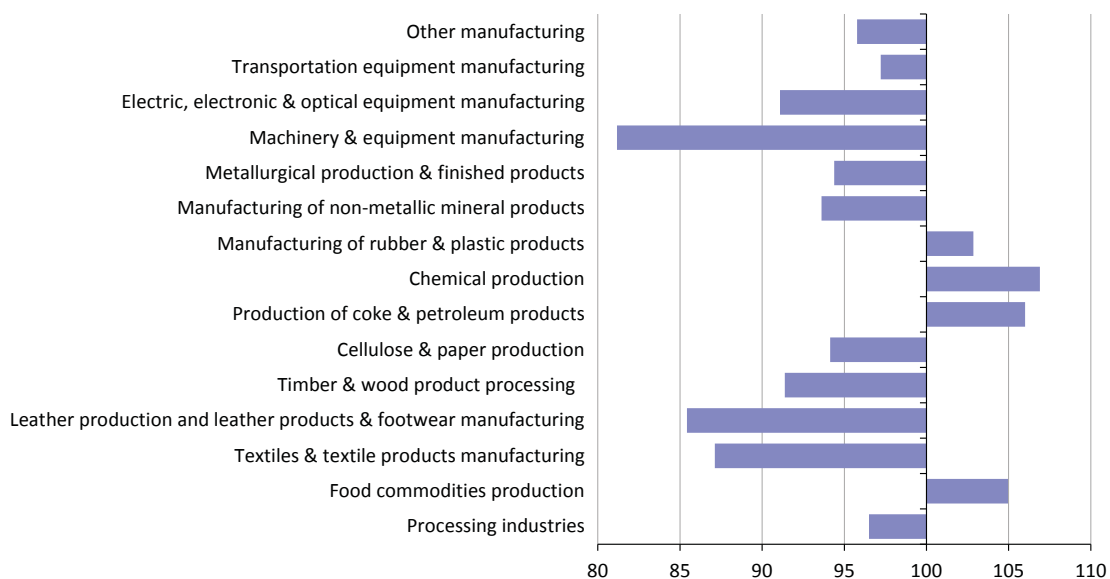
The situation in the construction complex exacerbates due to contraction of production volume of domestic capital goods and construction materials for the building activity as well as imports of the investment goods. In January–September 2015, expenses on purchase of machines and equipment remained at approximately the same level against the same period of the previous year with the price growth by 22.4% on machines and equipment against September 2014. The share of expenses on purchase of machines and equipment in the structure of fixed capital investments is falling, which is becoming one of the factors hampering manufacture upgrade and construction of competitive import substitution capacities.

In November 2015, the Industrial Production Index in annual terms came to 96.5% amid stabilization of dynamics in natural resources extraction and stronger recession in manufacturing to 94.7%. For November and January–November 2015, general dynamics of manufacturing demonstrates deteriorating indicators across all types of economic activity less manufacturing of



Source: Rosstat.

Fig. 2. The Movement of fixed capital investments, manufacture of machines and equipment and import of investment goods, % to corresponding period of previous year



Source: Rosstat.

Fig. 3. The Movement of manufacturing production across types of economic activity in January–November 2015 on January–November 2014

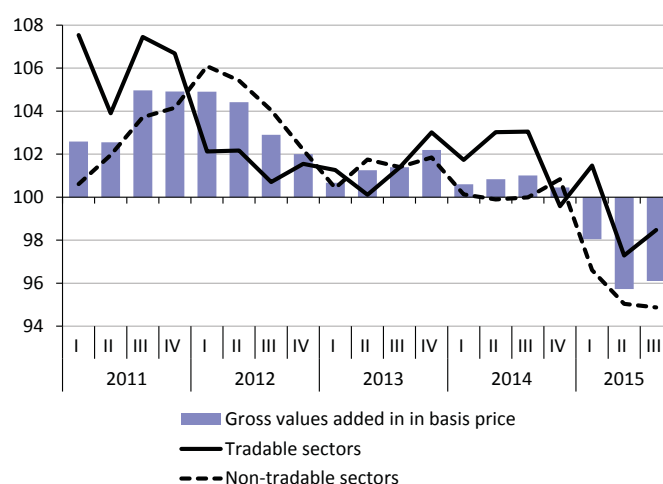
food products and chemical production against the same period of the previous year.

The output slump in tradable and non-tradable sectors of the economy affected GDP dynamics in 2015. Furthermore, non-tradable sectors of the economy (commerce, construction, transport, market services, etc.), which claim nearly half workplaces and fixed capital investments reacted to the domestic demand compression in a more acute form.

Tradable sectors (extracting, manufacturing and agriculture) are characterized by highly unstable dynamic. However, they remain a factor, which diminishes the impact of negative trends. Continuing growth of export in the export oriented sectors especially in extraction of natural resources positively affect non-tradable sectors of the economy.

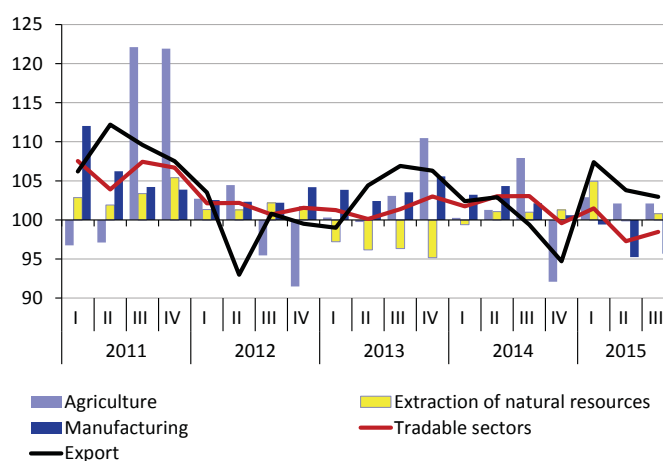
The dynamics of the Russian economy this year reflects falling development potential. In confirmation of this are high capacity utilization, lack of large-scale investment and the low-level unemployment. The situation is aggravated by a prolonged period of production costs growth due to tariff policy conducted by natural monopolies and advanced growth of wages over labour productivity.

The situation in the Russian economy during this year was complicated by falling volumes of the population's consumption. In November 2015, the retail trade turnover came to 86.9% and paid services rendered to the population – 97.2% on indicator of November 2014. The retail trade turnover indices and paid services are at the bottom low for the monitoring period since 2009. Compression of the retail trade turnover in the segment of food products (in January–November 91.9% and in November – 88.5% to the corresponding period of the previous year). In addition, the non-food products (90.3% and 85.4%, respectively). For eleven months of 2015, the consumer inflation index amounted to 112.8% and by 4.3 p.p. exceeded the same indicator of last year. Growing prices on food products produced a major impact of inflation in 2014, then in January–November 2015, price index on food products constituted 112.7% and on non-food products – 113.2%. This price dynamic across segments



Source: Rosstat.

Fig. 4. The movement of GDP on tradable and non-tradable sectors of the economy in 2011–2015, % to corresponding period of previous year



Source: Rosstat.

Fig. 5. The movement of tradable sector of economy across types of activity in 2011–2015, % to corresponding quarter of previous year

Table 1

THE BALANCED FINANCIAL RESULT OF ACTIVITY OF ENTERPRISES AND ORGANIZATIONS AND PROFITABILITY OF SOLD GOODS, PRODUCTS, WORKS AND SERVICES ACROSS TYPES OF ECONOMIC ACTIVITY IN JANUARY–SEPTEMBER 2015, % TO JANUARY–SEPTEMBER 2014

	Balanced financial result	Producer price index	Nominal wages	Profitability of sold goods and services
Total of which:	129.7	115.9	105.4	9.8
agriculture	146.7	115.6	110.2	25.5
fishing, fishery	280		127.7	43.4
Extraction of natural resources, including:	121.9	109.9	108.7	28.3
extraction of fuel energy resources	121.6	108.9	109.7	25.9
processing industries, of which:	155.6	114.4	108.1	12.6
Manufacture of food products	245.6	120.6	107.3	10.8
Textile and garment manufacturers	102.4	113.3	109.4	10.1
Manufacture of leather, leather products and footwear	-	114.3	109.8	8.1
Wood processing and manufacture of wood products	32.9	108.7	109.4	14.4
Pulp and paper manufacture	370	113.1	105.1	19.1
Manufacture of coke and oil products	82.7	105.2	110.0	5.9
Chemical production	370	117.7	109.8	34.2
Manufacture of rubber and plastic products	152.1	113.7	109.8	7.3
Manufacture of non-metal mineral products	35.1	105.4	103.2	9.4
Metallurgy and manufacture of finished products	200	125.4	107.6	24.9
Manufacture of machines and equipment	109.2	113.5	106.4	7.8
Manufacture of electrical equipment, electronic devices and optical equipment	155.6	112.9	111.7	11.0
Manufacture of means of transport and equipment	88.0	112.8	106.9	5.4
Production of electricity, gas and water supply	101.8	105.4	106.7	4.8
Construction	89.7	110.4	101.9	3.8
Retail and wholesale commerce	130.3	115.9	107.7	7.0
Transport and communication	117.2	111.5	106	12.1
Communications	91.2	104.1	105	23.3

Source: Rosstat.

of consumer market amid reduction of the population's income increased demand contraction on non-food products.

In November 2015, the real income of the population in annual terms shrank by 5.4% and the real wages – by 9.0% amid downward trend for standard of living effective since November 2014. Amid change of the economic situation, the consumer behaviour started to be characterized by increased saving and growth of expenses of mandatory payments with the decrease of expenses on purchase of products. In January–October 2015, the share of saving in the population's income amounted to 12.6% on 6.2% a year earlier.

In 2015, the earnings profile of the population register increased share of labour and social transfers. In November 2015, the number of jobless (according to WLO methodology) was estimated at 4.4 mn persons, and the level of unemployment came to 5.8% of the economically active population

and went up by 0.6 p.p. on the same indicator a year earlier. The total number of jobless by 4.7-fold exceeded the number of unemployed registered by the state employment agency offices. In November 2015, the state employment agency offices registered 941,000 jobless people up 13.7 against November 2014. The labour market adjustment to the economic recession is evolving with the implementation of conventional schemes of part-time employment and giving unpaid leave. This allows retaining qualified staff pending industrial production recovery growth as well as eases social tension. Chances for expanding employment and labour cost growth this year are tightly limited by changes in competition environment and by the results of enterprises and organizations' financial performance. ●