

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

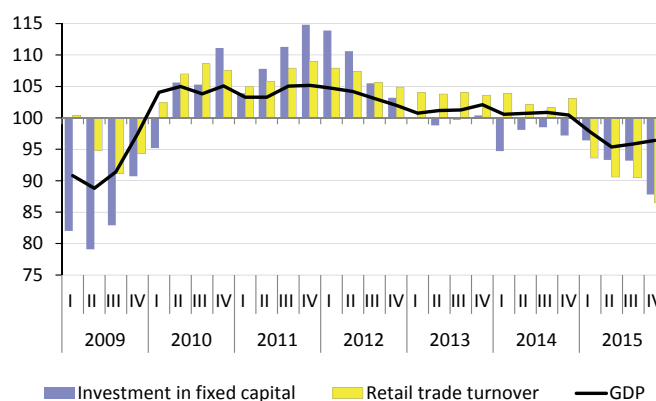
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According to preliminary estimates of the Ministry of Economic Development, annual growth rate of GDP in 2015 has come to 96.3% in comparison with the previous year. The fall of the growth rates of the Russian economy is due to the drastic contraction of domestic demand. Investments in fixed capital have compressed by 8.4% and the volume of the consumer market has fallen by 10% against 2014. Annual index of industrial production in 2015 has constituted 96.6%, including in manufacturing – 94.4%. Low investment demand has determined the decrease in machine building and construction complexes.

Real income of the population in 2015 against the previous year has contracted by 4.0% and the real wages by 9.5%, which is due to an increase of consumer prices by 12.9% since the turn of the year. The share of poor has grown. The situation is getting worse due to the tension on the labor market. In December 2015, total number of jobless has moved up by 9.5%, the number of officially registered unemployed – by 12.5% compared to December 2014.

Macroeconomic situation in 2015 was characterized by an increased decline of major indicators in H2 and worsened prospects for the development in the near-term. Among structural indicators, which determine the state of the economy one should mark the prolonged compression on the external and domestic demand, contraction of investments in fixed capital, imbalanced development of extracting and manufacturing sectors of the economy, outstripping growth of wages and salaries and population's income against the labor productivity. In 2014–2015, the situation was getting worse under the negative impact of the geopolitical situation, imposition of external sanctions and retaliatory Russian countermeasures. Since Q4 2014, the decline of the world prices and demand on hydrocarbons, increased depreciation of the ruble and increased inflation began negatively affect the economic situation. In the context of extremely unfavorable factors and conditions for the first time since 2009 GDP has contracted and came to 96.3% in 2015 against 2014 indicator.

The feature of 2015 was the shrinkage of the domestic market due to a significant contraction of consumer demand and investment in fixed capital. Similar situation was observed solely during the acute phase of 2009 crisis. In 2015, the volume of investment in fixed capital constituted 91.6%, and the retail trade turnover – 90.0% of 2014 indicator.



Source: Rosstat.

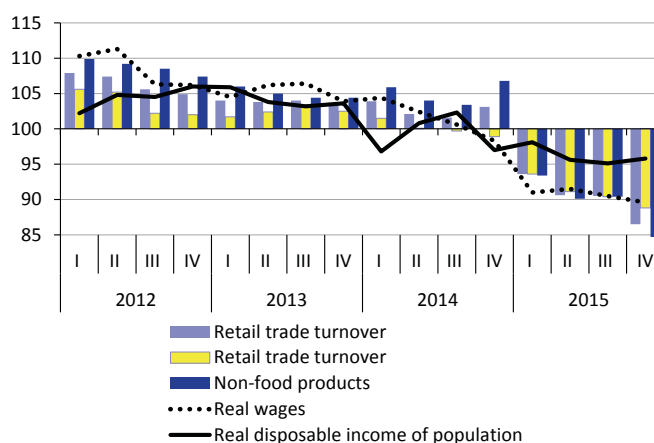
Fig. 1. The movement of major indicators of investment-construction complex in 2009–2015, % to corresponding Q of previous year

Drastic decline of dynamic of real income of the population and wages, high inflation, fall of real income of population have determined the change of demand structure across the segments of the demand market. If in 2014, agricultural products market stabilized at the attained level, then in 2015 the accumulated two-year growth of consumer prices by 31.6% has resulted in the reduction of demand by 9.2% in comparison with the previous year. Turnover of the market of non-agricultural products in 2015 has come to 89.3% of the indicator of the previous year, which became the most profound fall in this segment of the consumer market for the recent 17 years. It should be noted that the fall of the retail trade turnover across the segments of the market was growing across quarters of the current year.

Contraction of the households' demand was determined by the reduction of real income of the population, growth of the debt burden due to high loan debt of the households. Real income of the population in 2015 came to 96.0% and real wages to 90.5% of indicators in 2014.

The reduction of the population's income amid persistence of the high socio-economic differentiation and income inequality leads to an increase of poverty and negatively reflects on the consumer activity. In January–September 2015, the number of population with income below the living standard came to 20.7 million persons (14.1% of the total number of population) and went up in comparison with the previous year by 2.3 million persons (1.5 p.p.).

The change of parameters of the quality of life depends on the level of employment, wages and social safety net of the most vulnerable people. Remuneration of labor in 2015 constituted 65.3% in money income of population, social benefits – 18.6%. Taking into account the fact that remuneration of labor have a dominant effect on the level of the population's income, outlined by the end of the year the real wages downward trend is the main factor, which determines social parameters of the social standard of living in 2016.



Source: Rosstat.

Fig. 2. Growth rates of real income of population, real wages and retail trade turnover in 2012–2015, % to corresponding quarter of previous year

Table 1

STRUCTURE OF MONEY INCOME OF POPULATION IN 2010–2015, % TO TOTAL

	2010	2011	2012	2013	2014	2015*
Money income, total	100	100	100	100	100	100
Remuneration of labor, including hidden wages	65.2	65.6	66.0	65.3	66.8	65.3
Income from entrepreneurship	8.9	8.9	8.6	8.6	7.8	7.5
Social benefits	17.7	18.3	18.3	18.6	18.2	18.6
Property income	6.2	5.2	5.1	5.5	5.3	6.6
Other income	2.0	2.0	2.0	2.0	1.9	2.0

*Q3 2015.

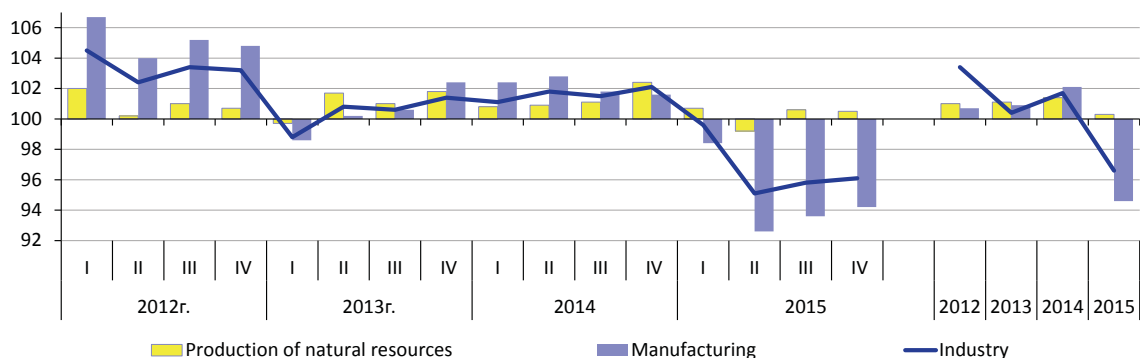
Source: Rosstat.

The situation is complicated by the growing tension on the labor market. Following a prolonged trend to reduce unemployment in 2015, the level of unemployment (according to the WLO methodology) has moved up to 5.8% of economically active population from 5.2% registered in 2014. The overall number of jobless has gone up by 7.4%, and officially registered unemployed by 9.2% against the previous year. Simultaneously, growth of subemployment is being registered as well as giving unpaid leaves. The number of requests for vacancies submitted to the state employment agency have increased by nearly 1.5-times against 2014.

One of the main issues of the Russian economy remain a prolonged crisis in the construction-investment complex. Due to the increased recession in the construction-investment activity the volume of construction works are decreasing as well as revenues from the operations with real estate. In 2015, the volume of fixed capital investment came to 91.6% and the volume of works in construction – 93.0% of the 2014 level. The situation in the construction-investment complex is complicated due to high cost of credit, price growth on the investment goods and weakened demand on the real estate market. In 2015, the volume of commissioned new living space constituted 99.5% of the last year indicator. Increased decline of investment in fixed capital registered in Q4 2015 as well as traditional for the investment cycle tight constraint of financing of state investments at the turn of the year till complicate the situation further in the construction-investment complex in Q1 2016.

The situation in industry has produced a negative impact on GDP dynamic. In 2015, index of industrial production has constituted 96.6% against the previous year. By the period-end for 2015, natural resources output went up by 0.3% with the decline in manufacturing by 5.6%, production and distribution of electricity, gas and water supply – by 1.6% against the previous year.

In 2015, positive dynamic in manufacturing was registered in the production of food products, production of coke and petroleum products, production of chemicals. Investment demand compression as well as decline of consumer demand in separate segments of the market has determined a contraction of output of investment goods. In 2015 against the previous year, in machine building complex machinery and equipment manufacturing came to 88.9%, manufacture of electrical equipment, electronic and optic



Source: Rosstat.

Fig. 3. Indices of industrial production across types of economic activity in 2012–2015, % to corresponding period of previous year

equipment – 92.1%, manufacture of means of transport – 91.5%. Investment activity rollback has determined a reduction of demand for construction and engineering materials. In 2015, index of construction materials production constituted 92.2% and in metallurgical complex – 93.5% against 2014. Taking into account cross-sectoral linkages, the situation in the automobile industry remains rather disturbing. Output cars has contracted by 21.6% and trucks – by 14.7% against 2014.

Table 2

**INDEX OF PRODUCTION ACROSS MAIN TYPES OF MANUFACTURING
ACTIVITY IN 2012–2015, % TO PREVIOUS YEAR**

	2012	2013	2014	2015
Manufacturing	105.1	100.5	102.1	94.6
Production of foodstuffs	104.1	100.6	102.5	102.0
Textile and textile products	100.7	104.3	97.5	88.3
Leather production and leather products & footwear manufacturing	98.1	95.6	97.2	88.6
Timber and wood product processing	96.2	108.0	94.7	96.6
Cellulose and paper production; publishing and printing activity	105.8	94.8	100.4	93.7
Production of coke and petroleum products	103.1	102.3	105.7	100.3
Chemical production	104.1	105.4	100.1	106.3
Manufacturing of rubber and plastics	112.8	105.9	107.5	96.3
Manufacture of non-metallic mineral products	110.7	98.0	101.8	92.2
Metallurgical production and manufacture of finished metal products	104.8	100.0	100.6	93.5
Machinery and equipment manufacturing	102.7	96.6	92.2	88.9
Electric, electronic and optic equipment manufacturing	106.4	99.0	99.5	92.1
Means of transport and equipment manufacturing	110.3	102.2	108.5	91.5

Source: Rosstat.

Despite the reduction of the output rates, balanced financial result of industry for January–November 2015 went up by 2.2fold against the corresponding period of the previous year. Main factor contributing to it was price increase by industrial goods producers for the period 2014–2015 by 17.2%, in manufacturing – by 20.7% and in extraction of mineral resources – by 8.0%. Income growth registered by enterprises and organizations give ground for positive assessment of development of the situation in 2016 amid unpredictable policy conducted by the regulating government bodies.

In 2016, besides realization of anti-crisis measures, structural reforms remain a priority. They are aimed at diversification of the economy, change of the investment environment and efficient implementation of industrial policy tools. ●