

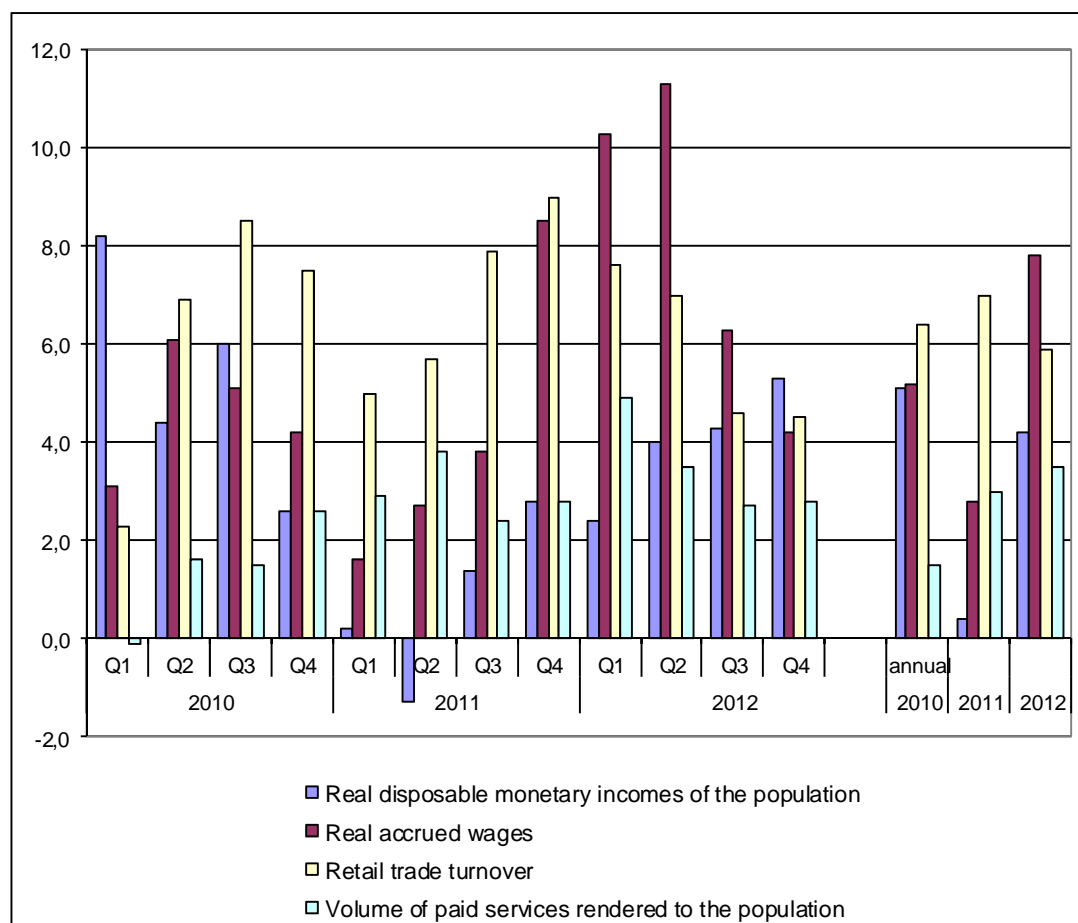
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Real Economy: Trends and Factors

Throughout 2012 the macroeconomic situation has been characterized by the gradual decrease of the economic activity. It was the simultaneous slowdown of both the internal and external demand growth rates that was one of the factors contributing to the low dynamics of 2012. According to the preliminary data of the RF Ministry of Economic Development, in 2012 GDP growth rates made 103.4% versus the previous year, investments in fixed assets – 106.7%, retail trade turnover – 105.9%. In 2012 the growth rates of the industry slowed down to 102.6% versus 104.7% in 2011. The plunge in the agriculture production of 4.7% versus 2011 had a negative effect on the output.

In 2012 the slowdown of the annual and quarter-by-quarter dynamics of the GDP was determined by the slowdown of the investment and consumer demand growth rates. At the same time, throughout 2012 the consumer demand remained one of the factors supporting the economic growth. On the whole, as a result of 2012 the increase of the retail trade turnover made 5.9% versus 7.0% a year ago. The slowdown of the consumer demand growth rates in 2012 occurred against the background of high annual growth rates of the real disposable incomes of 4.2%, of real wages – of 7.8% versus 0.4% and 2.8% correspondingly in 2011.

In 2012 quarter-by-quarter dynamics of the retail trade turnover demonstrates that the drop in the demand growth rates was accompanied by the gradual slowdown of the growth rates of the real incomes of the population and the real wages. In H1 2012 the increase in the retail trade turnover made 7.3%, the wages increasing by 10.7%, while in H2 2012, the figures were 4.5% and 4.2%, respectively, versus the corresponding period of the previous year. The inflation acceleration observed starting with H2 2012 has also had a negative impact on the consumer demand. The same as in 2011 the increase in the retail trade turnover occurred simultaneously with the expansion of the consumer crediting. In November 2012 the credits issued to the natural persons reached Rb 7887.5bn, having increased by 1.5 times versus the corresponding month of 2011. In January-November 2012 the proportion of savings in the incomes of the population remained approximately at the level of the previous year being equal to 9.1%. It should be noted that in January-November 2012 the proportion of expenses for foreign currency purchase in the incomes of the population was observed to expand to 5.1% versus 4.3% in the corresponding period of the previous year.

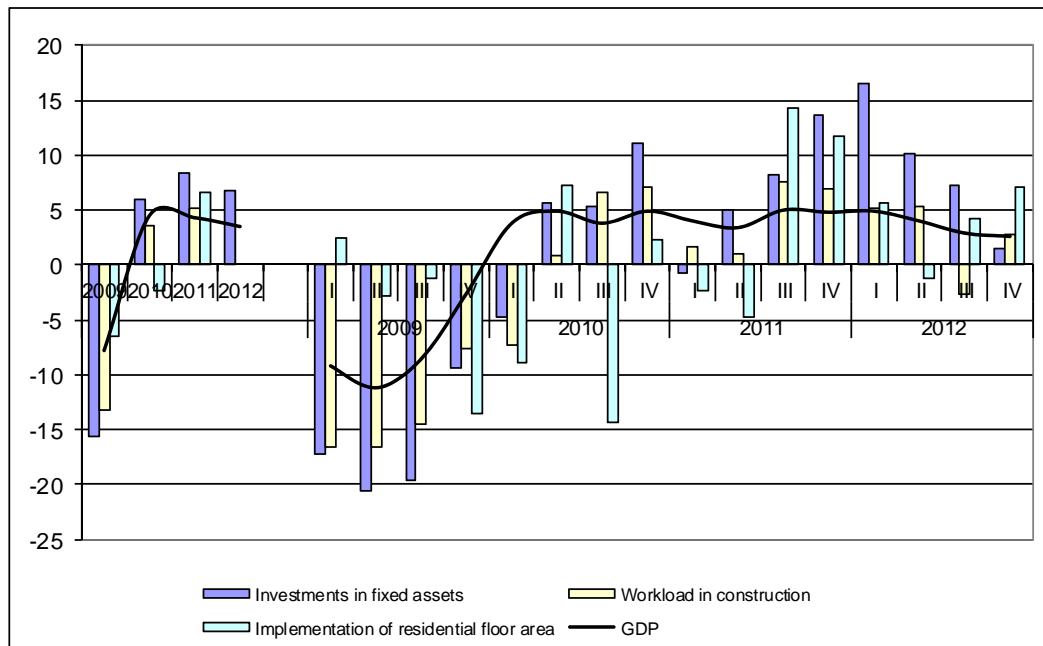


Source: Federal State Statistics Service

Fig. 1. Dynamics of Retail Trade Turnover, Paid Services Rendered to the Population and Real Incomes on the Corresponding Period of the Previous Year, as Percentage

In 2010-2012 the growth rates in the investment sector anticipated the GDP dynamics. By 2012 the aftermath of the deep investment crisis of 2008-2009 was overcome. Thus, in 2012 the investments in fixed assets by 3.2%, and the implementation of the residential floor area – by 1.9% - exceeded the pre-crisis level of 2008.

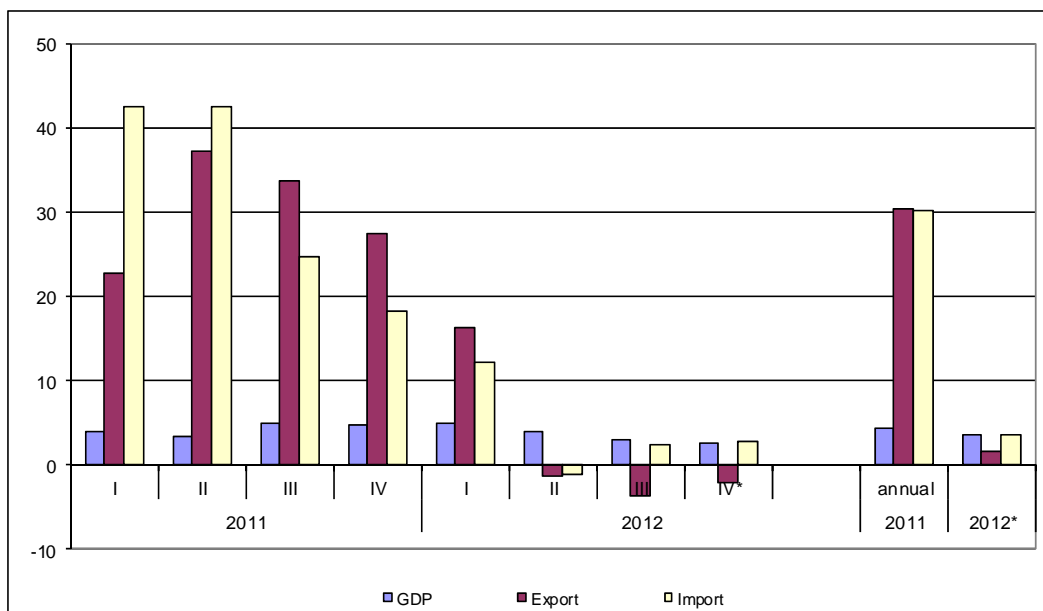
As a result of 2012 the investments in fixed assets grew by 6.7% versus the level of 2011 (8.3% a year ago), the workload in construction – by 2.4% (5.1% in 2011), implementation of the residential floor area – by 4.7% (6.6%). The upsurge of the investment activity occurred in January-August 2012 died away in the following months, and in Q4 2012 the trend for the slowdown of the investment activity was observed, which is uncharacteristic for the Russian construction cycle, resulting in quite reserved growth figure on the whole over the year.



Source: Federal State Statistics Service

Fig. 2. Dynamics of Investments in Fixed Assets and GDP, as Percentage to the Corresponding Period of the Previous Year

In 2012 the macroeconomic situation was considerably influenced by the drop of foreign trade growth rates in Q2-Q4, which intensified the trend towards the slowdown of the GDP growth rates. In 2012 the positive dynamics of the foreign trade indices was maintained due to the high growth rates in Q1 2012. Value volume of the foreign trade expanded by 2.3% in 2012, export increasing by 1.7% and import – by 3.6%. Under the existing dynamics and structure of the foreign trade turnover, the foreign trade balance contracted by 1.4% as compared with the previous year.



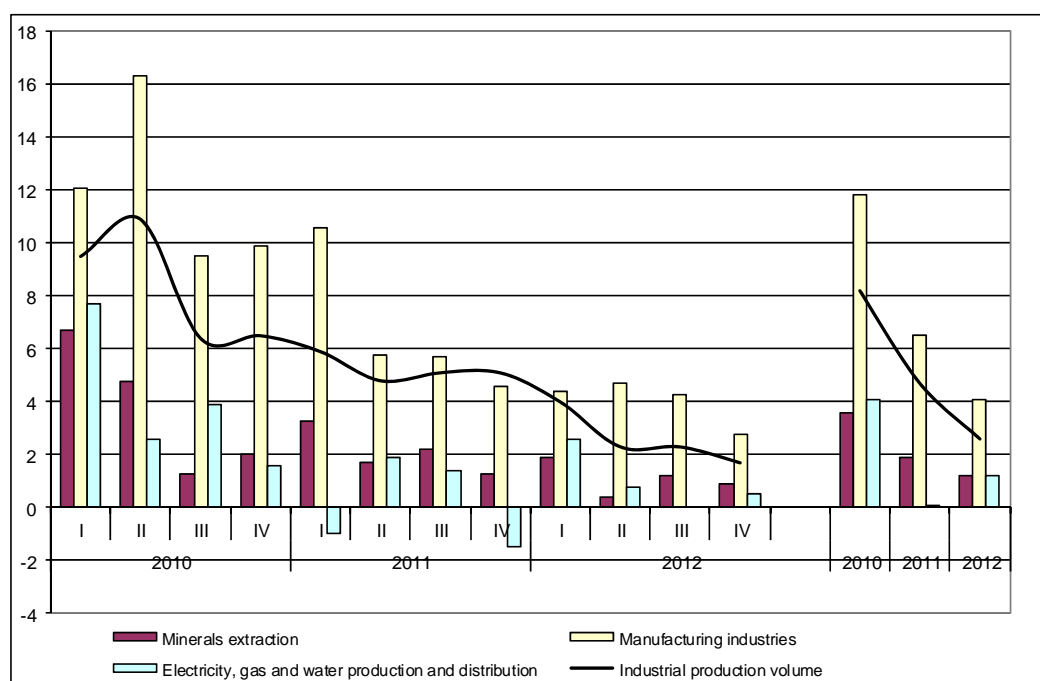
*) preliminary estimation

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

Fig. 3. Dynamics of Export and Import Value Volume and GDP Real Volume, as Percentage to the Corresponding Period of the Previous Year

The sector of commodities production was characterized by the intensified differentiation by types of economic activities. In 2012 the index of industrial production made 102.6% versus 2011 (104.7% in 2011 versus 2010), in minerals extraction – 101.1% (101.9%), in manufacturing industries – 104.1% (106.5%). It was the contraction of the agriculture production by 4.7% versus 2011 that had a negative effect on the economic dynamics in 2012.

In 2012 the manufacturing industry remained at the leading positions in the sector of commodities production as judged by the growth rates. However, it should be noted that the dynamics changed considerably in Q4 2012, when the growth rates hit the minimum of the post-crisis period of 2010-2012, making 2.8% versus Q4 2011. It should be noted that in December 2012 the production was observed to drop in the most types of the economic activities as compared both with the previous month and December 2011. The contraction of the production and demand, especially in machine-building and consumer complexes, at the end of 2012 will determine the conditions for the production development in the first months of 2013.



Source: Federal State Statistics Service

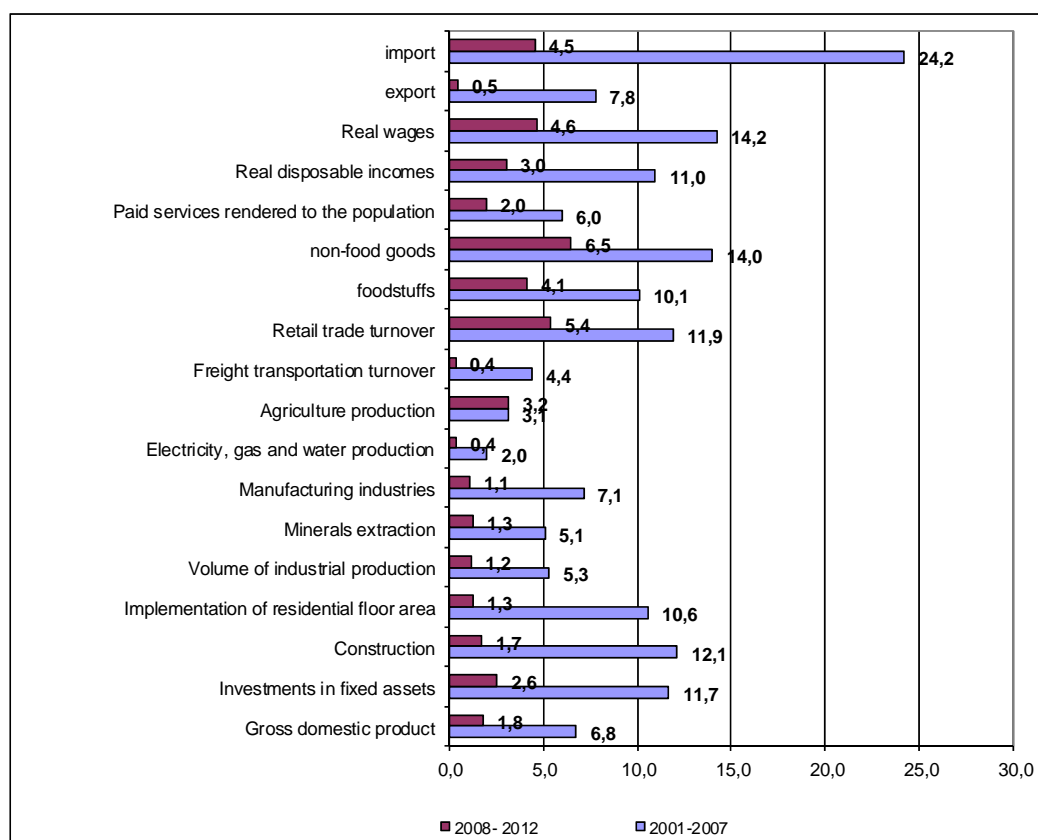
Fig. 4. Production Growth Rates, as Broken by Types of Economic Activities in Industry in 2008-2011, as Percentage to the Corresponding Period of the Previous Year

As compared with the previous year the production of the foodstuffs, rubber and plastic goods and construction materials grew at anticipating rates in the manufacturing industries.

Since in the post-crisis period the dynamic recovery of the machine-building had a considerable effect on the aggregated indices of the manufacturing industries development it should be noted that in 2012 the growth rates of machine-building complex made 107.5% versus 114.5% in 2011. However in 2012 it was only the production of the transport vehicles and equipment has recovered to the pre-crisis level of 2007. In 2012 the production of machinery and equipment, as well as production of electric, electronic and optic equipment remained at approximately 15% below the level of 2007.

Among the consumer goods productions, it is only the foodstuffs industry that is characterized by the steady positive dynamics. Textile and sewing production, leather, leather goods and footwear production have contracted versus the previous year. Under the existing dynamics of the consumer commodities production development the proportion of the domestically produced goods in the structure of retail trade resources decreased by 2% as compared with 2011.

The analysis of the main macroeconomic trends allows making conclusion that although in 2012 the Russian economy on the whole overcame the aftermath of the crisis the unsteady dynamics of the main macroindices and slow recovery rates of the investment sector will limit the development in the short run.



Source: Federal State Statistics Service

Fig. 5. Average Annual Growth Rates of the Main Socio-Economic Indices in 2001–2007 and 2008–2012, as Percentage

It should be noted that at present the economy is still dominated by the factors determining its dependence on the world prices for the exported raw materials: low internal demand and slow development of promising markets for consumer, investment and intermediate goods by the domestic producers, as well as the weak financial system.

Noting the significance of the internal market expansion as the factor dominating the post-crisis development of the economy in 2010-2012 the following factors should be taken into account. The current situation is complicated by the anticipating growth of import versus the export by the physical volume, and, consequently, the contraction of the net export. Besides, the Russian economy is characterized by the long-term trend for the anticipating growth of import supplies as compared with the dynamics of the domestic production.

The formation of the prerequisite economic conditions for the start of the steady development implies the fulfillment of a number of measures aimed at the modernization of the production potential, spurring of the investment activity and increase in the human capital assets quality.