

THE REAL SECTOR IN FEBRUARY 2016

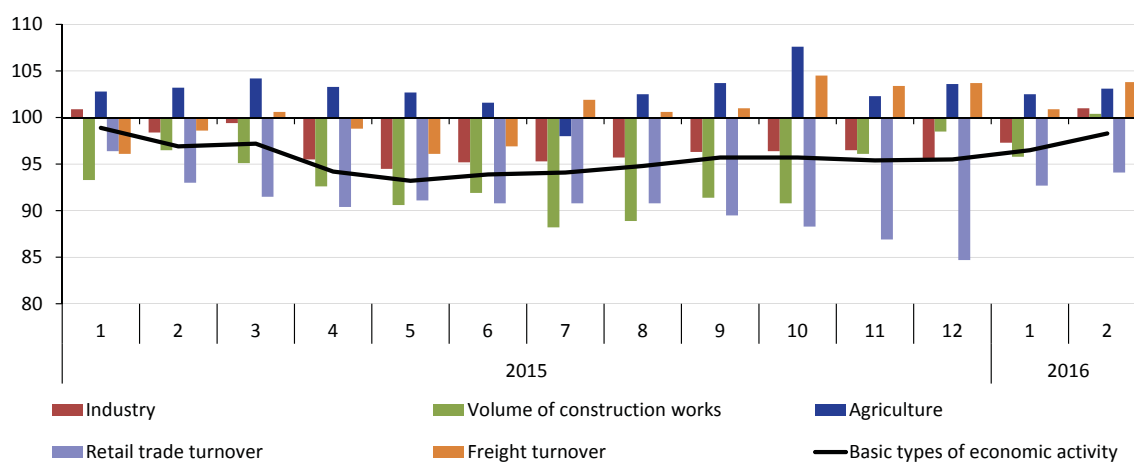
O.Izryadnova

In early 2016, Russia's domestic market was exposed to the long-continued influence of a simultaneous contraction of the consumer and investment markets. In January and February, the retail trade turnover index amounted to 93.4%, the volume index of commercial services rendered to the population – to 98.3%, and the construction work volume index – to 98.3% relative to the same period of the previous year.

Early 2016 saw a notable deterioration of social parameters. In February 2016, the real disposable income and real wages of the population amounted to 93.1% and 97.4% relative to February 2015. The situation in the labor market remained tense – in February, the number of officially registered unemployed increased by 5.2% on January 2016.

The situation in Russia's domestic market in January–February 2016 was determined by the trends which had been maturing over the course of 2015. Both consumer and investment demand continued to simultaneously shrink, and the share of net exports in Russia's GDP dwindled at an accelerated pace. In January–February 2016, the volume of retail trade, the volume of commercial services rendered to the population, and the volume of construction works amounted to 93.4%, 98.3%, and 98.3% respectively, relative to the same period of the previous year. The positive trend in the movement of agricultural production and transport services remained the main factor preventing output decline in the basic types of economic activity.

An analysis of the behavior of major economic indices shows that in the first two months of 2016, there was a notable deceleration in the rate of the current slump in annual terms, and for the first time since January 2015, the growth rate of industrial production and the growth rate of the construction



Source: Rosstat.

Fig. 1. The dynamics of the physical volume of output, by basic type of economic activity, in 2015–2016, relative to the corresponding period of previous year

work volume became positive, since January 2015 and November 2013, respectively.

In February 2016, as a year earlier, industrial production was determined by a 5.8% growth of mineral extraction in annual terms. At the same time, electricity, natural gas and water production became stabilized, while output in the manufacturing industry dropped by 1.0%.

The output volume indices in the processing industry are rather significantly diversified by type of economic activity, which is largely determined by variances in the behavior of investments in fixed capital in each sector in 2015. Thus, investment in the machine-building complex and the production of electrical, electronic and optical equipment was 12.2% higher than in 2014. Capital investment in the production of means of transport dropped by 21.4%, and in the production of machinery and equipment – by 4.4%. Investment in fixed assets in the chemical industry increased 1.14-fold due to an increase in the export potential of chemical products and the import-substitution processes.

Low investment demand determined a slack behavior of capital goods. In January–February 2016, the machine-building complex experienced a rise in the industrial production index of machinery and equipment, to 101.6%, and a decline in the industrial production index of electrical, electronic and optical equipment, to 98.9%, relative to the same period of 2015. In January–February 2016, production of means of transport and transport equipment dropped by 5.5% on the same period of 2015. At the same time, production of cargo vehicles increased by 29.4%, while production of passenger cars plummeted by 25.7% relative to the corresponding period of the previous year. Production of intermediate chemicals, and rubber and plastic products continued its upward trend, which had not changed since the period January–February 2015. These sectors of the chemical industry display robust production growth because their products have filled the available niches in the domestic and foreign markets; besides, it is sustained by the growth of investment in fixed assets.

In February 2016, although the volume of oil extraction was on the upward trend, the volume of crude delivered to oil refineries and the production output of petroleum products continued to decline, albeit at a slower pace, their rates of decline having dropped by 3.2% and 2.0% respectively in annual terms. It should also be taken into consideration that the low level of investment in 2015 have notably restrained modernization of Russia's oil refineries.

In early 2016, the production output of practically all sectors of the consumer goods manufacturing industry began to grow. In February 2016, the production output of the textile and garment industry amounted to 100.4% in annual terms, while production of leather, leather products and footwear – to 112.3% in annual terms. However, the observable growth in output failed

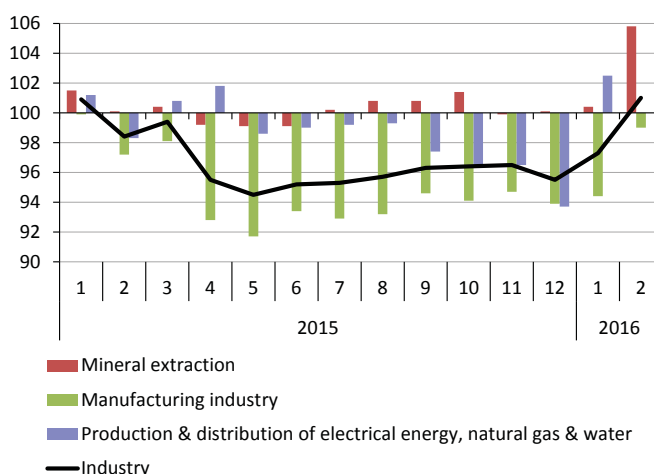
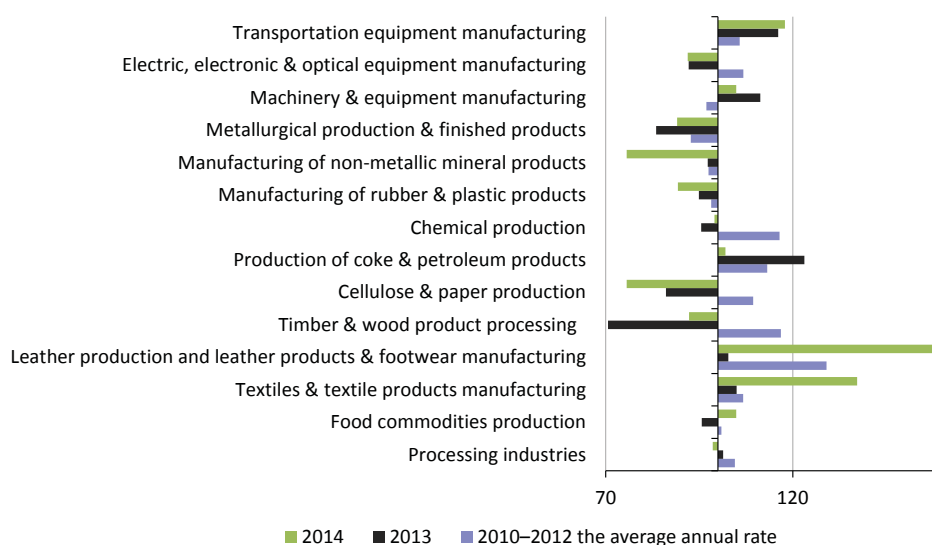


Fig. 2. The pace of industrial production, by type of economic activity, in 2015–2016, as a percentage of the corresponding period of previous year



Source: Rosstat.

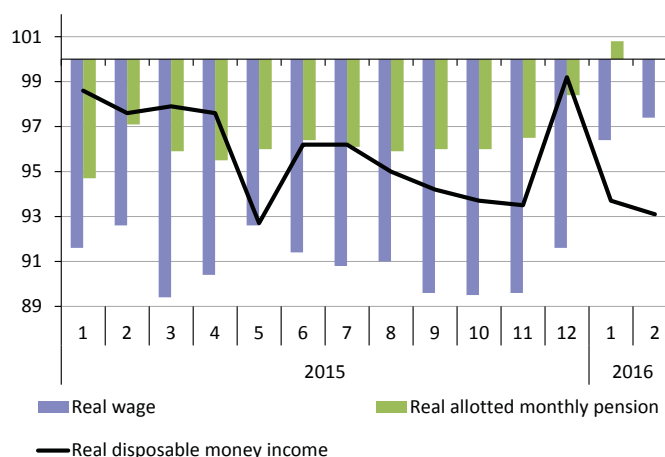
Fig. 3. The movement of production indices, by major type of processing industries, in February 2015 and February 2016, as % of the same month of previous year

to significantly change the situation in the consumer market, because the plunge of output experienced by these complexes in February 2015 had been very deep. In January–February 2016, the production output of food products increased at a 103.5% pace vs. 104.1% in January–February 2015. In this respect, the situation in early 2016 was shaping up just like that is early 2015.

The specific feature of the behavior displayed by social development indices in 2015–2016 was the plunge of the population’s real money incomes. The real disposable money income in February 2016 amounted to 93.1% of its previous year’s value, real wages – to 97.4% respectively.

The consumer price inflation in February 2016 amounted to 8.1% (vs. the price surge in February 2015 by 16.7% in per annum terms), including growth of food prices by 6.5% (vs. 23.4% a year earlier). It should be noted that in February 2016, the price index of nonfood commodities increased by 9.5% in per annum terms (vs. 13.2% in February 2015), its growth rate getting ahead of that of food prices. In February 2016, retail turnover in per annum terms amounted to 94.1%, including that of foodstuffs (93.7%) and nonfood commodities (92.4%). As a result, in February 2016 the relative share of foodstuffs in the overall retail turnover, including beverages and tobacco products, increased by 0.8 pp. to 50.1%.

The volume of commercial services rendered to the population over January–February 2016 shrank by 1.7% on the corresponding period of 2015.

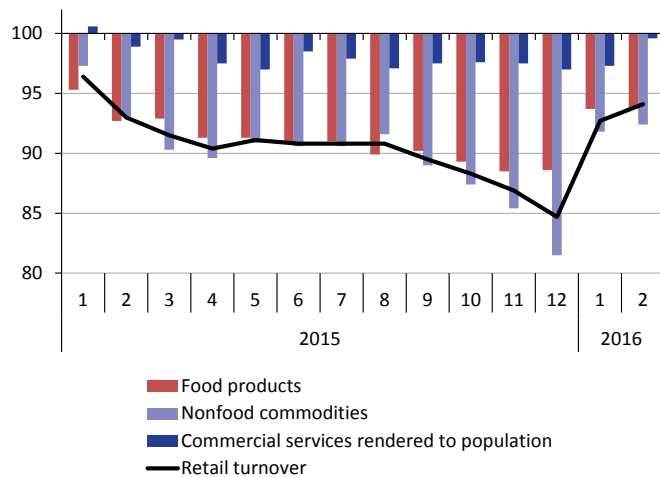


Source: Rosstat.

Fig. 4. The movement of the population’s real incomes in 2015–2016, as % of the same period of previous year

The deepest plunge was demonstrated by the volume of outbound tourism and recreational services, while that of education, spa and healthcare services declined at a more modest rate. The downward trend in retail turnover and the turnover of commercial services rendered to the population will prevail over H1 2016 and push domestic demand even further down.

The number of employed population in February 2016 increased on January by 185,000, or by 0.3%; and on February 2015 – by 108,000, or by 0.2%. The number of unemployed population (as estimated by the ILO methodology) in February 2016 increased on the corresponding period of 2015 by 0.4% to 4.4m (5.8% of the economically active population); 1.1m were registered as unemployed at the local bodies of the Federal Service for Labor and Employment, which amounted to 1.3% of the economically active population. In February 2016, the number of registered unemployed individuals increased by 5.2% on the previous month. Early in 2016, the downward trend in the movement of demand for workforce became more prominent, while the load of unemployed population on the vacancies offered by employment centers was on the rise. Social and political stability will depend on the success of government measures designed to support the most vulnerable population groups. The action plan of the RF Government, aimed at sustainable socioeconomic development of the Russian Federation in 2016, includes social protection and government support measures designed to boost the employment rate and ease the current tension in the labor market. ●



Source: Rosstat.

Fig. 5. The movement of retail turnover indices in 2015–2016, as % of the same period of previous year