

MONITORING OF RUSSIA'S ECONOMIC OUTLOOK:

TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

No. 20(38) December 2016

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РАНХиГС
РОССИЙСКАЯ АКАДЕМИЯ НАРОДНОГО ХОЗЯЙСТВА
И ГОСУДАРСТВЕННОЙ СЛУЖБЫ
ПРИ ПРЕЗИДЕНТЕ РОССИЙСКОЙ ФЕДЕРАЦИИ



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MAIN TRENDS AND CONCLUSIONS

V. Gurevich

As far as the Russian economy is concerned, the market situation in December could be characterized as excessively positive. The agreement between the OPEC member states to voluntarily cut their oil output, joined by a number of non-OPEC countries; the 15–20% rise in oil quotes that have been staying at that level for nearly a month already; the resulting forecast of an increase of Russia's state revenue by more than Rb 1 trillion in the coming year; the fulfilled plans for the state budget to be funded by the sale of oil assets during the expiring year; the steadily rising expectations that the anti-Russian sanctions can be softened; the record-breaking performance of the Russian stock market; the placid response of the ruble's exchange rate to the increase in the rates of the FRS; the continuing decline in the inflation rate, which has even failed to display any typically pre-New-Year's Eve fluctuations; the slight but obvious growth in industry (analysts have impugned only the incredibly robust figures of industrial growth in November published by the Russian Federal State Statistics Service); and the record cereal harvest that would be difficult to repeat in the foreseeable future.

The excessiveness of the positive achievements displayed by the economy underlines the fact that a heavy mix of a variety of positive economic factors has an adverse effect on the desire to decisively change anything in the existing economical patterns (which has never been universally strong in all of the sectors of the Russian economy in the first place). Suffice to remind ourselves of the effect that the positive market situation of five or ten years ago had on the desire for change: in fact, it consistently blocked any move to reform the economy.

An analysis of the current situation in the Russian regions indicates that a number of indices have relatively improved, although the available data are rather diverse and heterogeneous. The number of regions displaying negative industrial production dynamics during the period January–October 2016 shrank considerably relative to the same period of last year; however, according to our experts, the slump continues in the processing and manufacturing industries across a total of 37 regions. The decline in investment has slowed down, although in 46 regions out of 85 investment remains in negative zone. The revenues of regional budgets slightly increased (the drop in federal transfers was compensated for by the rise in personal income tax, excises and profits tax receipts). The budget deficits that were observed in September in 39 regions, may actually increase when adjusted by the December results due to the rise in expenditures towards the end of the year. On the other hand, the labor market is experiencing a decline in the number of people employed on a part-time basis, while the unemployment rate, as a rule, has remained stubbornly low.

On the basis of business opinion surveys carried out by the Gaidar Institute, its experts conclude that, according to the data for Q4 2016, the estimates and expectations offered by Russian enterprises (the so-called adaptability index that describes 'the share of enterprises' considering their indicators to be 'normal') have hit their record high since the beginning of the observation period (1994).

Eighty seven percent of the surveyed industrial enterprises are satisfied with their financial and economic situation (a percentage not seen since early 2008); 83% are satisfied with their supply of skilled workers (the best result of the entire observation period); and 81% are satisfied with their access to raw materials and primary products (also a record high). At the end of 2016, the most critical indicator – that of satisfaction with the current demand for their own products – was ‘normal’ for 58% of the surveyed enterprises (the best result since the beginning of the current crisis). However, it was the satisfaction with demand index that sharply divided the enterprises into two groups depending on their assessment of their current situation: the biggest enterprises find it more or less satisfactory, while the small and medium ones are dissatisfied. Moreover, the authors of the survey warn that an all-too-‘successful’ adaptation of industry to the current situation is fraught with another danger: it may make enterprises reluctant to initiate any active attempts at promoting robust growth rates.

According to our experts, the period-end results of Q3 2016 indicate that most of the segments of the real sector of the economy continued to display zero-growth rates. Notable growth took place in those branches that either produced competitive products (for example, the chemical industry) or relied on government subsidies, had an access to the state defense order, took advantage of the opportunities for import substitution, or grew from a low base point. Thus, in particular, growth was noted in the production of trucks, agricultural machinery and equipment, buses and locomotives, as well as in timber processing and timber products manufacturing. Potentially, provided that the situation on foreign markets is positive, some production growth will be possible in the nearest future.

Judging by the foreign trade statistics for the period August-October 2016, the volume of imports has practically stabilized, while exports have continued to fall due to a considerable drop in fuel imports, to \$43.4bn (or to 89.1% of the value of fuel imported in August-October 2015). On the other hand, the volume of non-fuel exports halted its downward movement (\$31bn), while that of non-food commodities imports, agricultural raw materials imports, as well as timber imports and paper imports, increased. ●

1. RUSSIAN REGIONS IN AUTUMN OF 2016: ONGOING RECESSION

N. Zubarevich

In September-October 2016, the number of regions which posted negative dynamics of industrial production has significantly declined. Investments continue contracting in more than half of the regions together with housing commissioning. Population's income and consumption are falling in the overwhelming majority of regions. Regional budgets' income is rising slower than their expenses, herewith saving on human capital is becoming a stable trend. The labor market exhibits reduction of part-time employment and, as a rule, consistently low unemployment level.

Industrial production

Industrial recession is coming to an end: industrial dynamic for January-October 2016 stayed at zero in comparison with the same period of the previous year, and the number of regions with the ongoing recession has contracted to 26. However, industrial dynamic in manufacturing is not as good as elsewhere (-0.9% in January-October), recession goes ahead in 37 regions, and their number has not shrunk against the summer.

Among industrial regions industrial production has been rising faster and more sustainably in Rostov, Moscow (14–15%), Bryansk, Tula, Yaroslavl, and Irkutsk regions, the Stavropol Krai, the Sakhalin region, the Nenets and Yamal-Nenets autonomous okrugs (5–9%). These are mainly regions with the military-industrial complex, food processing industry and oil and gas specialization. Owing to increased coal prices, industrial production has picked up in the Kemerovo region (6%). Following 2016 recession, industrial growth has commenced in Kaluga and Sverdlovsk regions, Chuvashia, Udmurtia and Khakasia (7–10%)

Recession goes ahead in a number of Far Eastern regions, the most severe is registered in semi-depressed Amur region and Jewish autonomous okrug (-9–13%). The same recession rates have been posted in Chelyabinsk and Orenburg regions, Republic of Mordovia, Krasnoyarsk and Primorsky Krai. However, industrial production has been contracting in those regions for two years in a row.

Investment

Investment drop registered in January-September 2016 has softened to -2.3%, however negative dynamic persists in more than half of the regions (46 out of 85). Major and prolonged contraction has been registered in the majority of the Siberian regions, in half of the Volga regions, and in the Krasnodar Krai (Fig. 1). The city of Moscow, whose share in the overall investment in Russia constitutes 11%, has been slightly growing over recent two years against St. Petersburg and the Moscow region. Industrial dynamic is also different in the leading oil and gas producing regions: Tatarstan manages to retain sustainable investment growth. The Yamal-Nenets autonomous okrug and the Komi Republic have also posted increased industrial dynamic following 2015 recession, and in the Khanty-Mansi autonomous okrug and the Nenets autonomous okrug, Sakhalin and Orenburg regions it has been falling.

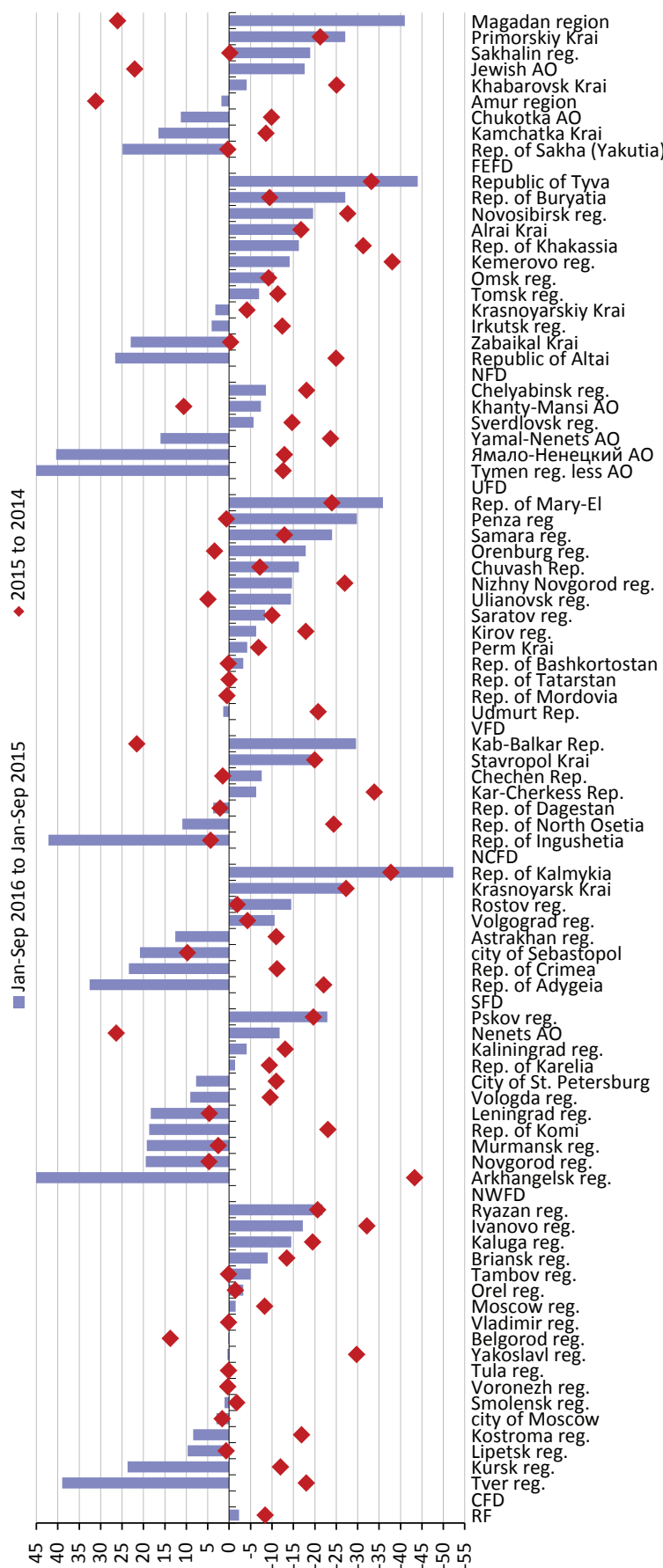


Fig. 1. Dynamic of business fixed investment, % to corresponding period of previous year

Commissioning of housing

In January-October 2016, commissioning of housing shrank by 6.4%, the decrease took place in 50 regions. The worst dynamic was observed in the Siberian Federal District and in the majority of regions of the Urals FD. Regions with the highest volume of housing commissioning the peak decrease was demonstrated by the Tyumen, Chelyabinsk, and Samara regions (-31–32%). In capitol agglomerations the dynamic is different owing to the base effect. For example, in 2015, Moscow exhibited a record growth of housing commissioning (+16%), and in January-October 2016 posted a reduction by 25%. The Moscow region, which boasts of the highest volume of housing commissioning in the country, demonstrates the opposite dynamic: following the major 2015 slump (-15%) there was a significant growth posted in January-October 2016 (by 12%). In St. Petersburg, housing commissioning in 2015 registered a slump by 7% and in January-October 2016, housing commissioning picked up by 2%. Statistics demonstrate that housing construction seasawed, the crisis is not over yet.

Labor market

Regional labor markets are relatively good. Termination of the industrial recession has determined a reduction of part-time employment: from 3.4% of the headcount posted in Q2 2016 down to 2.9% in Q3 2016. There are fewer regions with significant volume of part-time employment, its level is considerable solely in the Ulyanovsk region and Republic of Crimea (6.2–6.3%), Chuvashia and the Tver region (5.2–5.4%) the Samara, Novgorod< Ivanovo< Novosibirsk regions and Sebastopol (4.5–4.8%). Except the Crimea, these are regions with machine building and textile specialization.

The level of unemployment according to the MOT methodology has remained at the minimum level (5.3% in August-October 2016) and has remained unchanged in comparison with the same period of the previous year. Regional outlook is mainly stable, the unemployment level has risen significantly solely in depressed Kurgan region and the Komi Republic (from 7 to 9%). In the latter, this is due to the problems experienced in the coal industry.

Real income

Against relatively good indicators of labor market, decrease of the real cash income of the population goes on; in January-September 2016, they fell by 5%. Most noticeable reduction has taken place in the Central regions in comparison with the Volga, Urals and Eastern regions of the country (*Fig. 2*).

Retail trade

On the whole, slump in retail trade (-5%) coincides with dynamic of falling income. Outlook is contradictory in different regions: In Central Russia retail trade is contracting faster than population's cash income, in the Urals, North-West and South dynamic of two indicators is similar, and in the Volga and the Far East consumption is shrinking not too significantly in comparison with the reduction of cash income of the population (*Fig. 2*). However, these differences can be attributed to the low quality of statistics.

Regional budgets

The state of regional budgets remains problematic. Owing to the federal budget deficit there was a reduction of transfers to the regions by 8.2% in

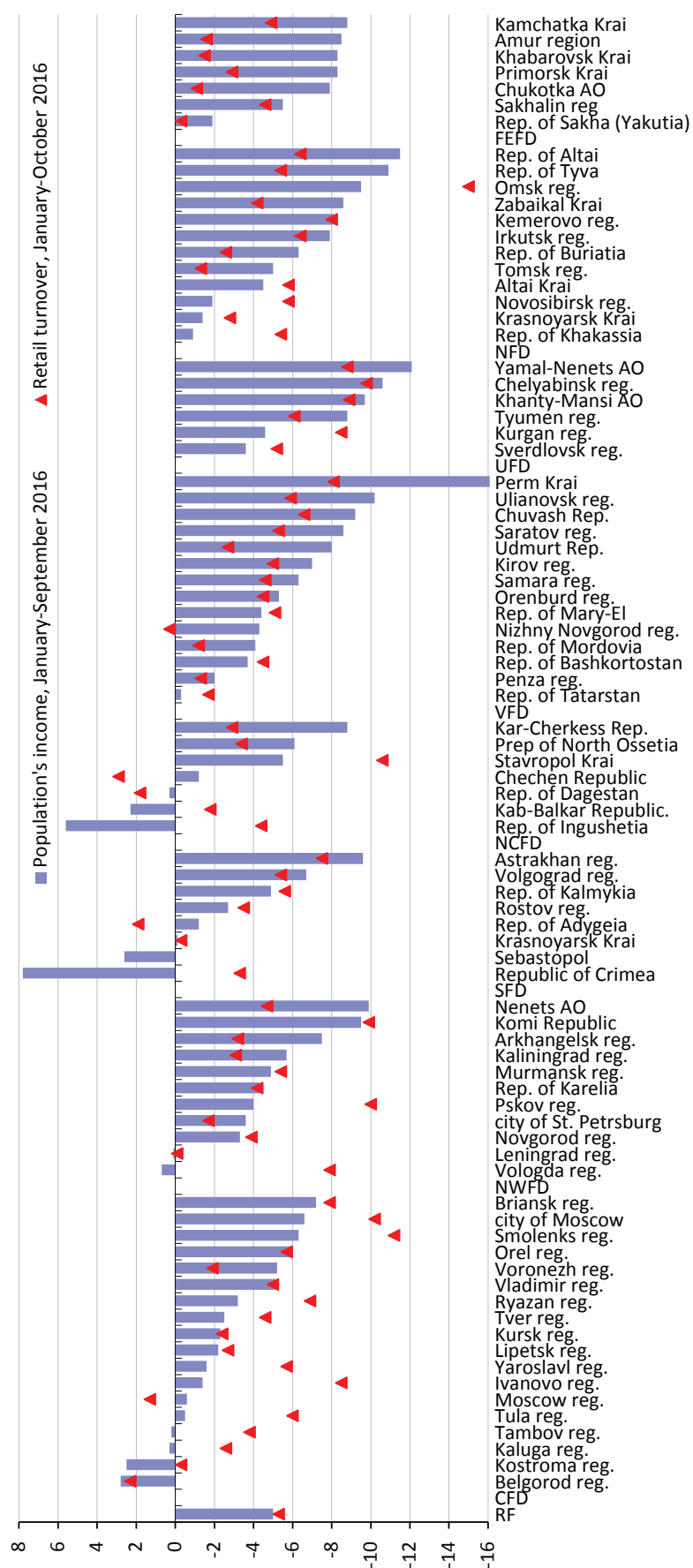


Fig. 2. Dynamic of real cash income and retail turnover against corresponding period of 2015, %

January-September 2016, which was a negative factor. Sixty-nine regions have received fewer transfers against the same period of 2015. Among highly beneficiary regions transfers have been cut most to Sebastopol by half, North Ossetia and Karachay-Cherkessia by 10–13%. In Chechnya, Dagestan, and Altai reduction was minimal – by 1–3%, and transfers to the Republic of Ingushetia went up by 31%, Tyva and Kamchatka Krai – by 8%, Chukotka AO – by 25%. The Kaliningrad region was not highly beneficiary, but is becoming one – in January-September 2016, it received 3.4 times more transfers in order to offset losses owing to partial repeal of beneficiary regime of special zone.

Reduction of transfers have been offset by growth of revenues proceeding from PIT (7.7%), excises (34%), and income tax (3.4%). As a result, consolidated budgets revenues of the regions have gone up in January-September 2016, although insignificantly (3.2% in comparison with the same period of 2015). However, 23 regions exhibited contraction of nominal budget revenues.

Contrary to 2015, in January-September 2016, regional budget spending grew faster (3.9%) than income. This is due both to the federal elections on the eve of which it is more difficult to optimize social expenses and increase utility rates and to the need to co-finance subsidies extended from the federal budget on support of sectors of the economy and infrastructure development. Regional budget spending was the highest on the national economy (9.5%), utilities (6.2%) and social safety net (5.7%). Spending on education fell by 0.7%, spending on health care went up barely by 2% (taking into account spending of territorial funds of mandatory health insurance – by 3%). Saving on the human capital has become a basic trend.

In January-September 2016, the budget deficit was observed in 39 regions, during the same period of 2015 there number was higher – 46. Deficit problems are most acute in the Nenets AO (27% of budget income) the Republic of Khakasia (21%), Sebastopol (16%), in the Republic of Mordovia, Komi, Kabardino-Balkar, Kostroma, Astrakhan and Orel regions (10–12%). By the year-end, the number of regions with budget deficit will significantly grow owing to the fact that in December budget expenses sharply grow. ●

2. ADAPTABILITY INDEX IN INDUSTRY HAS HIT MAXIMUM

S. Tsukhlo

In Q4 2016, assessment of the Adaptability Index (share of enterprises considering their indicators to be “normal”) approached 75% level of adaptability of domestic industry against the ongoing crisis of 2015–2016. According to the IEP business surveys, the Adaptability Index has hit its record high level for the entire period of its calculation (1994–2016). Increase of the general indicator was due to major enterprises.

Industry literally has reached extraordinary adaptability to realities of Russian economy and economic policy (Fig. 1). However, continuation and moreover “completion of adaptability” can make enterprises reluctant to initiate any active attempts at promoting statistically unquestionable output growth.

Eighty seven percent of the surveys industrial enterprises are satisfied with their financial and economic situation. A percentage not seen since Q1 2008. Eighty three percent of enterprises are satisfied with their supply of skilled workers – the best result of the entire observation period.

Eighty one percent of enterprises are satisfied with their access to raw materials and primary products, which is another record high for the entire period of IEP business surveys. In Q4 2016, 71% of businesses consider normal their stock of finished products, which is an excellent result taking into account the balance of remain estimates (“above normal” – “below normal”), which since Q2 2016 has stayed around zero level. This demonstrates an unprecedentedly successful control of businesses over their stock of finished products.

Currently 68% of businesses report sufficient capacity provision. This, at first sight, low compared to the previous indicators result has, however, significant 25% “makeweight” of excessive capacity. This puts into question the argument about the lack of reserves of idle capacities required for fast transition to industrial production growth. Barely 5–9% of businesses reported lack of capacities in 2013–2016.

At the end of 2016, the indicator of satisfaction with the current demand for their own products – was ‘normal’ for 58% of the surveyed enterprises, the best result since the beginning of the current crisis. The worst value (45%) of this indicator was registered by no means at the onset of the crisis (then 51% of businesses were satisfied with demand) but and the turn of 2016 when industry has not observed a promised “bottom-up”.

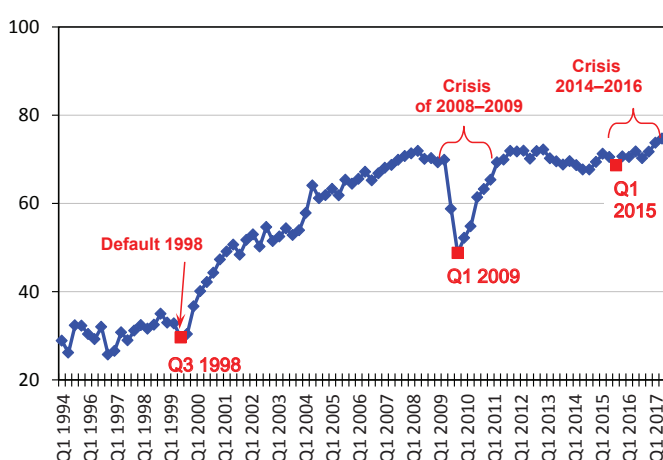


Fig. 1. Index of Adaptability (normality) of industry, 1994–2016, % (share of enterprises estimating their indicators as “normal”)

However, computation of the Adaptability index across sizes of businesses has demonstrated that the growth of the general indicator was ensured by the biggest enterprises (with the head-count over 1,000 employees). In this group of enterprises Index hit in Q4 2016 79%, which is an absolute maximum for group indicator (Fig. 2). It should be noted that these enterprises entered the 2015–2016 crisis with 71% of adaptability. Later they raised it and maintained at the level of 74%, and in 2016, they managed to raise the indicator by 5 p.p.

Industrial enterprises of other sizes experience more difficulties in overcoming the current crisis. Adaptability index computed for small and medium-sized enterprises (1–250 employees) is inferior to the one computed for the biggest businesses and has not positive dynamics in 2015–2016. During these crisis years, adaptability among small and medium-sized enterprises constitutes 57–58%. Big enterprises (251–1,000 employees) assess their situation somewhat better. They managed to adapt to the current crisis at 64%, however without positive dynamics by the end of the second year of the ongoing crisis.

Main factor, which determined the division of businesses of various sizes along the adaptability index to the current crisis were estimates of demand. IEP business surveys' data definitely demonstrate that satisfaction with demand increases with the size of an enterprise. At the same time, small and medium-sized businesses not only always were less satisfied with demand on their products, but in 2015–2016 decreased their satisfaction index in comparison with the pre-crisis years. Meanwhile, the biggest enterprises have managed to increase their share of responses "normal" while assessing demand. Thus, if the demand crisis ever hit Russian industry in 2015–2016, then mainly that was true of small and medium-sized businesses.

However, small and medium-sized businesses responded properly to the situation with demand and prevented overstock of finished products during 2015–2016 crisis. The share of "normal" responses of stock reached its maximum for the entire period of instruments observation period. Balance of other estimates of stocks ("above normal" – "below normal") as always for these businesses remained negative and did not change in the course of the entire period of 2010–2016. The biggest enterprises, on the contrary, in the wake of the crisis reported decrease of stock of finished products, but during decline in the positive zone of the balance of estimates "above normal" and "below normal", which testifies to the reduction of the confidence of these producers in their projections of demand in the context of crisis.

At the same time, very large enterprises had better sufficiency in raw materials, which is another factor for the growth of the group Adaptability index. These producers managed to achieve better results during crisis of

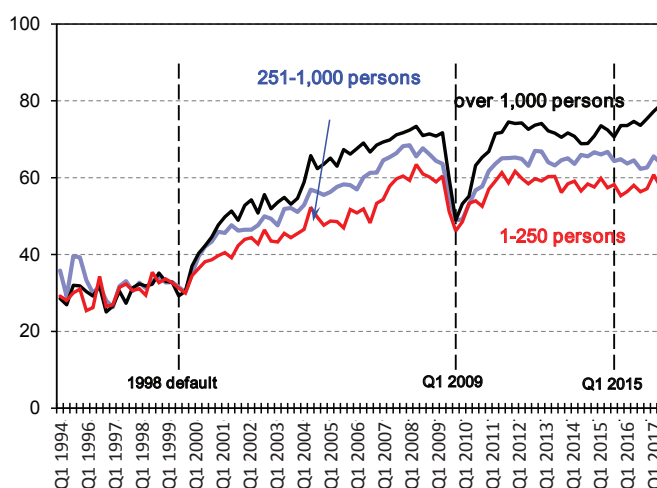


Fig. 2 Adaptability index across sizes of enterprises, 1994-2016, % (share of enterprises considering their indicators to be "normal")

2015–2016 in self-sufficiency in was materials for the entire period of monitoring of the indicator.

With respect to capacities and staff, enterprises of all sizes boast of high normal self-sufficiency in these resources: no less than 90% regarding capacities and no less than 80% regarding headcount. ●

3. INDUSTRY IN Q3 2016: AROUND ZERO¹

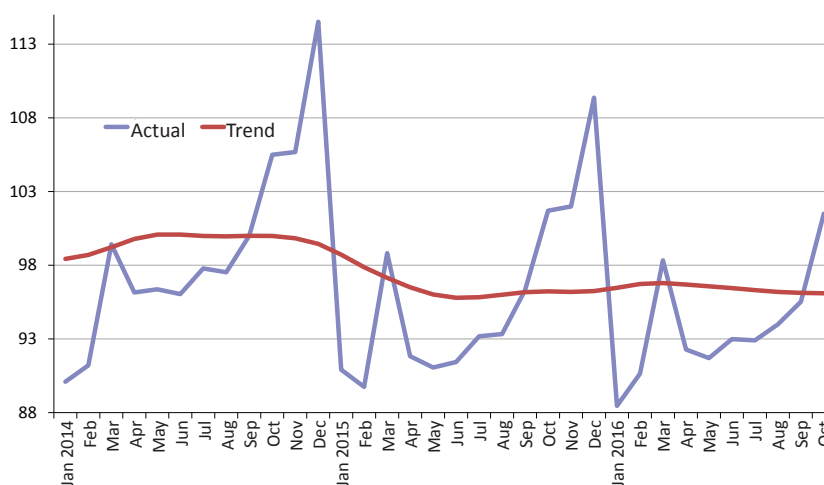
A. Kaukin, E. Miller

In Q3 2016, zero growth rates remain in the majority of segments of the real sector of the Russian economy. Noticeable growth is noted solely in some sectors, which either stand out by the output of competitive products (for example, chemical industry) or by obtained state subsidies (subsidies extended to the producers of agricultural machinery and railway vehicles).¹

Despite a short-term surge in volatility on financial markets triggered by Brexit, the world economy outlook including the Russian economy remains stable and continued developing within dynamics² posted by the end of H1 2016.

For computation and defining of the trend component of industrial production time series³ across certain sectors, Gaidar Institute used currently available Rosstat statistics⁴. Obtained findings demonstrate that the Russian economy in Q3 2016 exhibits close to zero output dynamics shown by the trend component of the industrial production index (Fig. 1).

Following observed in mid-year sluggish growth in the mining sector, in September-October some slowdown in the output growth was noticeable, which can be linked to the negative effect generated from the reduction of extraction of certain mineral resources (according to Rosstat data, mining of metal minerals in October 2016 in comparison with the same period of last year constituted 99.2%, mining of other mineral resources – 90.1% for the same period of comparison⁵).



Sources: Rosstat, own calculations.

Fig. 1. Dynamics of the industrial production index in 2014–2016, actual data and trend component (September 2014 = 100%)

¹ Authors thank Marina Turuntseva and Taya Gorshkova for the assistance in conducting statistical analysis.

² A. Kaukin, G. Idrisov. Russian Industry in H1 2016: zero dynamics. Monitoring of Russia's Economic Outlook. Trends and challenges of socio-economic development. No. 14(32), September 2016.

³ Separation of the trend component was carried out by Demetra and by using X12-ARIMA.

⁴ Information about Russia's socio-economic outlook January-October 2016, Rosstat.

⁵ Production indices across the Russian Federation. Online information for 2016. Rosstat, October 2016. [http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/enterprise/industrial/#]

Sluggish recession, which is close to stagnation, continues in the manufacturing industry. Positive dynamic is noticeable solely in several sectors such as wood processing and woodwork manufacturing, chemical production, manufacturing of machines and equipment (*Table 1*).

By the period-end for 10 months of 2016, the wood processing industry and pulp and paper production demonstrate sluggish growth. Positive dynamics registered in Q3 2016 in comparison with the same period of last year is explained by general production growth observed in the timber industry, which is due to the increased attractiveness of export of finished products following the ruble devaluation.

In Q3 2016, the index of industrial production in paper and pulp industry exhibited the highest rates of growth. It is due to high demand for cardboard containers (switched to by the retail chains) and launch of new capacities in production of these products in large cities¹. Ruble price hikes on domestic market and unstable situation on export markets raised in Q3 2016 production volume of wood products (plywood, veneer, wood particleboards, etc.) earmarked for export.

The chemical production commenced growing in Q3 2016 against small decrease in production seen at the end of H1 2016. Growth rates downward trend posted in mid-year is owing to high base², which was formed due to kirk-start of new businesses in 2013-2014 and which reached designed capacity production by end-2015 and beginning of 2016. Moreover, downswing is linked to a breakdown, which took place in May 2016 at the JSC "Angara polymer plant"³ located in the Irkutsk region. Although repairs ended in end-Q2 2016⁴, this fact has not affected production growth owing to a conflict, which hasn't been settled up till now⁵, regarding long-term deliveries between JSC "Angara polymer plant" and JSC "Sayanskkhimplast", which prevents the plant to operate at full capacity. According to our estimates, production growth rates seen in chemical industry have been positively affected by kirk-start of new investment projects such as: "Ammonium" plant in the Republic of Tatarstan⁶, "Ammonia-4" plant in Velikiy Novgorod⁷, and "Fertilizer plant" in the Tyumen region⁸, as well increase of crop area⁹, which drove

1 Production indices across the Russian Federation. Online information for 2016. Rosstat, October 2016. [http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/enterprise/industrial/#]

2 Chemical production in 2016 will go up again. News and reviews of petrochemical industry, 15.04.2016. [<http://rcc.ru/article/himicheskoe-proizvodstvo-v-2016-godu-snova-vyrastet-54208>]

3 About the situation at Angara polymer plant. News JSC "Rosneft", 30.05.2016. [<https://www.rosneft.ru/press/news/item/182265/>]

4 Repairs at Angara polymer plant will last for a month at the minimum. Interfax, 30.05.2016. [<http://www.interfax.ru/business/510871>]

5 Medvedev instructed FAS to tackle the issue of deliveries of raw materials to "Sayanskkhimplast". Interfax, 20.06.2016. [<http://www.interfax.ru/business/519507>] and "Sayanskkhimplast" and "Rosneft" will try to agree on optimal price on ethylene. IA "Teleinform", 16.11.2016 [<http://www.sayansk-city.ru/?act=News&CODE=02&n=3406>]

6 Vladimir Putin kirk-started "Ammonium" plan in Mendeleevsk. RBC, 12.02.2016. [<http://www.rbc.ru/tatarstan/12/02/2016/56bdcafd9a794787560c810c>].

7 Visit to Akron company. Official website of the President of the Russian Federation, 29.07.2016. [<http://www.kremlin.ru/events/president/news/52618>].

8 The first fertilizer plant in the Tyumen region began operations. New and uprated enterprises of agribusiness, 20.01.2016. [<http://sdelanounas.ru/blogs/72976>].

9 Ministry of Agriculture of Russia: forecast for the crop area structure in 2016. Ministry of Agriculture of Russia, 26.02.2016. [<http://www.mcx.ru/news/news/show/48361.355.htm>].

Table 1

OUTPUT INDICES ACROSS SECTORS OF THE ECONOMY, %

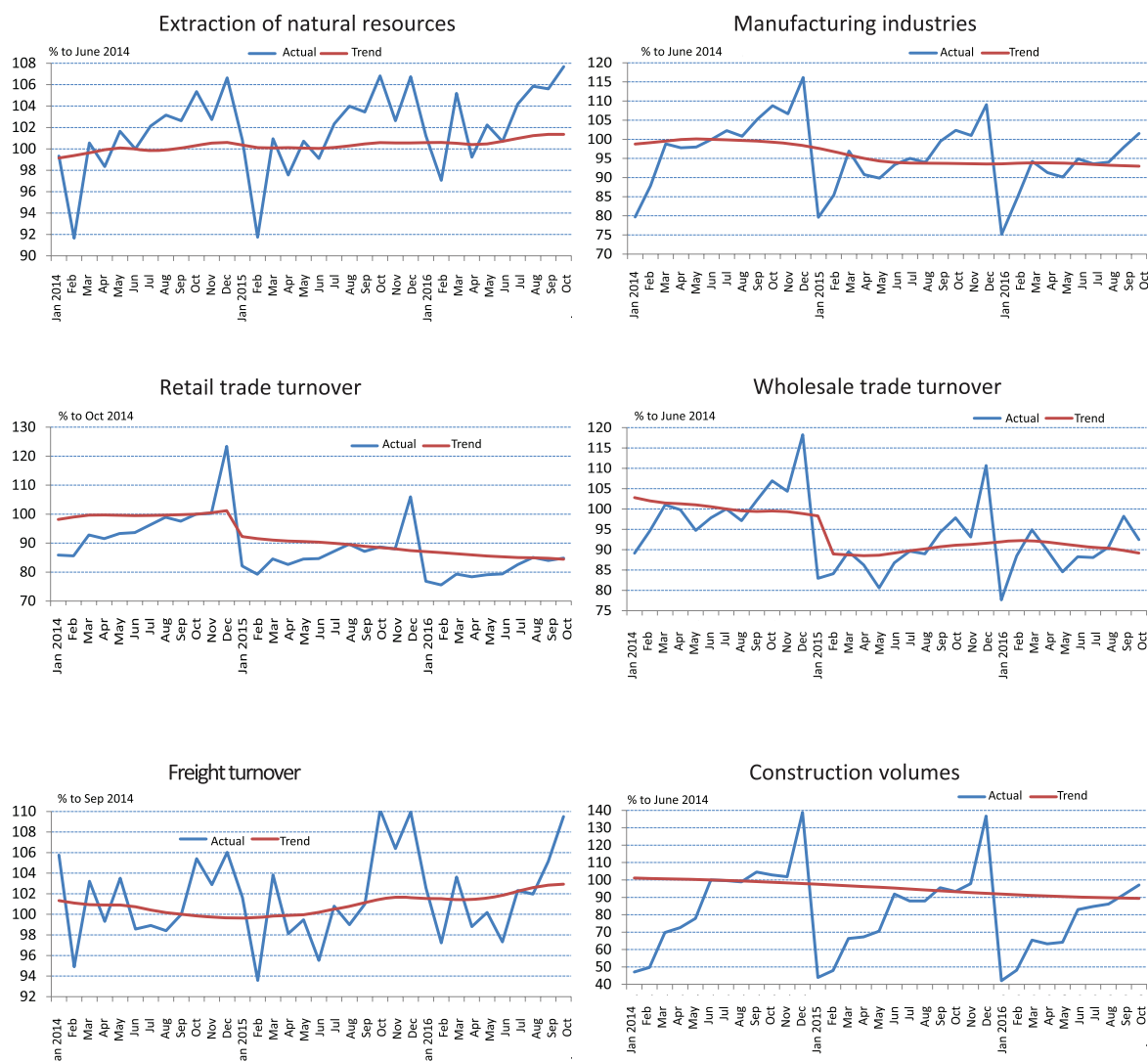
	Share in industrial production index, October 2016	October 2016 against March 2015	October 2016 against June 2016	October 2016 against September 2016	Changes over recent months
Index of industrial production		99.28	99.63	99.97	stagnation
Extraction of mineral resources	33.99	100.83	100.64	99.99	stagnation
Manufacturing industries:	52.50	99.11	99.30	99.87	stagnation
including:					
Food products production, including beverages, and tobacco	17.05	100.01	99.94	99.96	stagnation
Textile and garment manufacturing	1.43	103.36	99.90	100.11	stagnation
Leather manufacturing, leather products and footwear manufacturing	0.32	97.75	98.58	99.73	sluggish recession
Wood processing and wood products manufacture	2.20	101.73	100.59	99.94	sluggish recession
Paper and pulp production	3.92	99.74	99.64	99.83	stagnation
Coke and petroleum products production	18.78	100.23	100.50	100.19	stagnation
Chemical production	7.46	101.61	101.63	100.44	growth
Manufacture of rubber and plastic products	2.26	104.44	101.14	100.40	sluggish growth
Production of other non-metallic mineral products	4.41	98.08	97.71	98.74	recession
Metallurgical production and manufacturing of finished metal products	17.23	97.42	99.14	100.41	stagnation
Manufacturing of machinery and equipment	6.24	101.90	102.87	100.31	growth
Manufacturing of electric, electronic and optical equipment	6.05	97.26	98.30	99.48	sluggish recession
Manufacturing of means of transport and equipment	7.06	98.87	99.17	100.02	stagnation
Other manufacturing	5.59	98.08	99.65	100.16	stagnation
Electricity, gas and water	13.51	99.98	99.99	100.00	stagnation
Retail trade		97.82	99.07	99.58	sluggish recession
Wholesale trade		96.69	98.04	99.25	recession
Transport		101.45	101.04	100.09	sluggish growth
Construction		98.14	99.25	99.80	stagnation
Paid services to population		99.10	99.43	99.73	stagnation

Sources: Rosstat, own calculations.

demand for crop-protection agents and correspondingly promoted their production volume (168% in October 2016 against October 2015).

Manufacturing of machinery and equipment and manufacturing of means of transport exhibits a rather erratic dynamics across sub-sectors. Sustainable growth is observed in the farm machinery industry, production of medical goods and instrument-making industry, manufacturing of household appliances and in large power engineering industry¹.

¹ Dynamics of machine building is uneven, however positive trend is noticeable. Russia Today, 20.09.2016. [<http://riarating.ru/comments/20160920/630039751.html>]



Sources: Rosstat, own calculations.

Fig. 2. Dynamics of production indices across sectors in 2014–2016, actual data and trend component

Situation in the sphere of manufacturing of means of transport, on the one hand, is characterized by an increase of production of heavy goods vehicles, farm machinery, buses and diesel-powered locomotives production (107%, 131%, 111%, and 126% in January–October 2016 compared to January–October 2015, respectively) explained by a low base and to a certain extent import substitution, defense order and targeted measures of state support (subsidies to producers of farm machinery and freight railway vehicles)¹. On the other hand, this growth is levelled out by deep recession posted in automobile manufacturing owing to a reduction of consumer demand.

Retail and wholesale trade post ongoing recession, construction and paid services to population register stagnation, transportation volumes exhibit sluggish growth (Table 1 and Table 2).

¹ About industrial production seen in January–October 2016. Rosstat, October 2016. [http://www.gks.ru/bgd/free/B09_03/IssWWW.exe/Stg/d01/230.htm] Industry goes up owing to state support provided to machine building. Izvestia, 20.11.2016. [<http://izvestia.ru/news/644173>]

Thus, given trend components time series dynamics recorded in the most important segments of the real sector suggest ongoing stagnation trend in the output volumes though Q3 2016. The output decline is taking place in industries, which heavily depend on import deliveries of components (manufacturing of means of transport and electronics) Industries capable of competing on the world market exhibit sluggish growth. Potential industrial growth is feasible in short-term perspective in case of stabilization of the world economy and favorable external environment.●

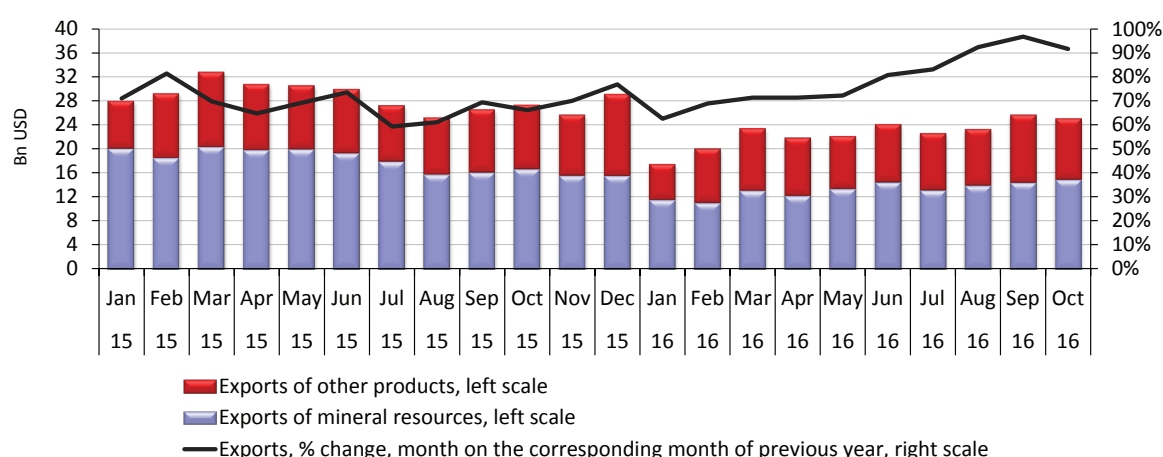
4. OCTOBER 2016: EXPORT DECLINE, IMPORT MAINTAINED

A. Knobel, A. Firanchuk

In August-October 2016, total exports exhibited negative dynamics. Imports demonstrated stabilization feature. Regional structure of trade turnover during the first ten months of 2016 has rendered previous quarters' indicators: percentage of the EU countries and Ukraine are declining and percentage of the EAEU countries, Canada and USA are moving up.

In January-October 2016, exports continued a downward trend in comparison with the same indices seen in 2015 (Fig. 1). During the first ten months of 2016, in value terms exports went down to \$ 226.8bn (78.6% against the level seen January-October 2015 and 53.6% against January-October 2014). Main reason for the negative dynamics of total exports was fuel, which accounted for around 85% of the total cost reduction of exports (\$ 52.3 and 61.8bn). However, there was a reduction in value terms both of energy products and of exports of non-resource products of medium and high degree of processing: exports of products apart from mineral fuels, crude oil and gas (commodity item 27), fell to \$ 94.1bn (90.8% against January-October 2015 and 76.0% against January-October 2014).

For the first nine months of 2016, in value terms imports constituted \$ 147.1bn, which is somewhat less the same values of 2015 (97.7% against January-October 2015 and 60.7% against January-October 2014). During recent months (August-October 2016), imports stood stable constituting 109.2% against the same indicator of 2015 (Fig. 2), which largely explained by Rb to Euro exchange rate dynamic: through much of recent years total volumes of import and Rb exchange rate changed simultaneously¹.

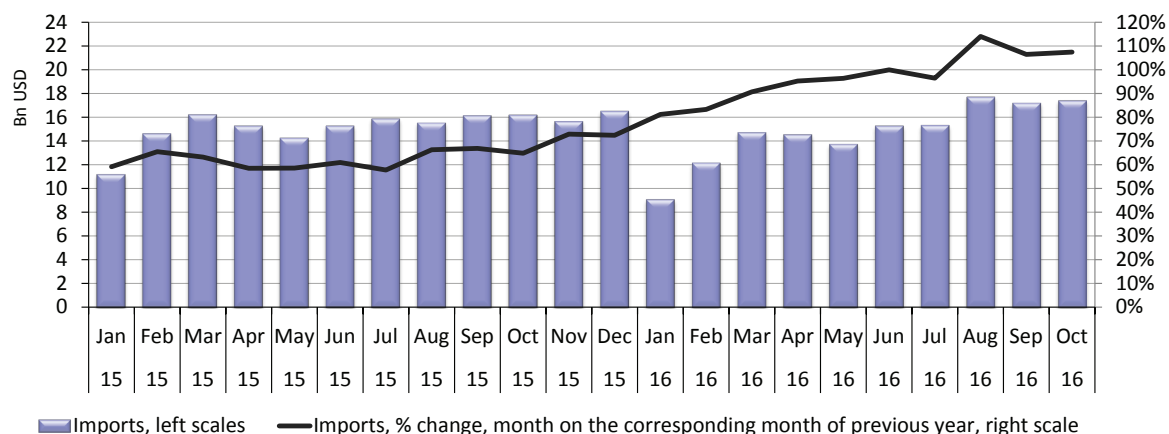


Source: own calculations based on the data released by Russia's FCS.

Fig. 1. Dynamic of Russia's exports in 2015–2016

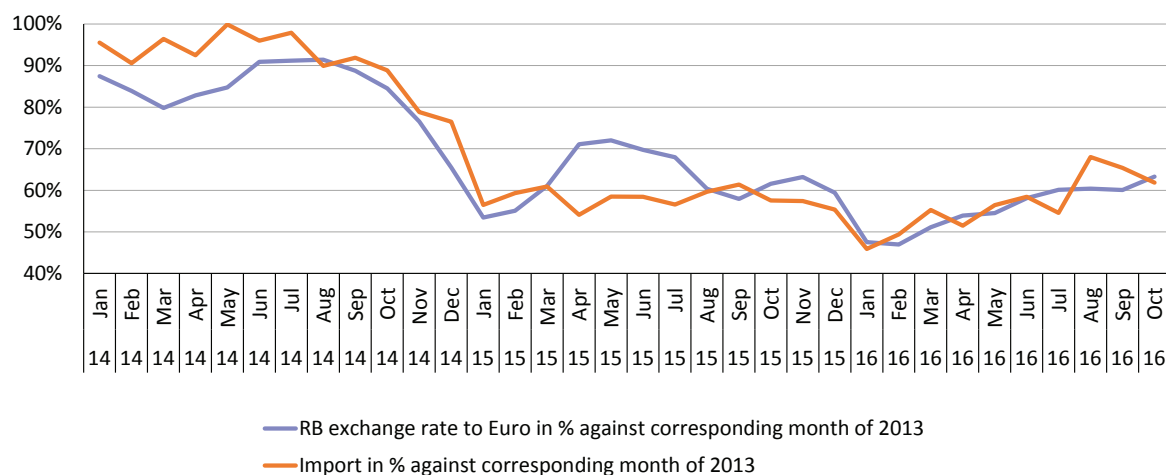
1 Comparison with USD see: A. Knobel, A. Firanchuk "Foreign Trade: Trade Balance Down Due to Decline in Export". Journal "Russian Economic Developments" No. 5, 2016.

4. OCTOBER 2016: EXPORT DECLINE, IMPORT MAINTAINED



Source: own calculations based on the data released by Russia's FCS.

Fig. 2. Dynamics of Russia's imports in 2015–2016



Source: own calculations based on Russia's FC data.

Fig. 3. Dynamic of Russia's import and Rb exchange rate in 2014–2016

According to the Bank of Russia data, in August-October 2016, Rb-Euro exchange rate (Rb 71.0 to Euro) was close to the same indicator seen in August-October 2015 (72.90)¹. Thus, nominal ruble exchange rate in comparison with August-October 2015 has strengthened by 3%.

It should be noted that downward trend of fuel exports continued in value terms (commodity item 27), which shrank to \$ 43.3bn (89.1% against August-October 2015 and 53.0% against August-October 2014) amid growth of shipments' volume. However, in August-October, the non-fuel exports stabilized constituting Rb 31.0bn (100.7% against August-October 2015 and 78.4% against August-October 2014).

In commodity profile, exports (in USD) have fallen across 6 out of 10 major analyzed commodity groups specified by the Federal Customs Service (FCS) (Table 2). At the same time, in "mineral products" group and "chemical industry products" decline hit 11% and 16%, respectively.

1 RF CB: Principal Derived Indices of Ruble Exchange Rate Dynamic in 2016.

Table 1

**CHANGE OF PRICES AND VOLUMES OF SHIPMENTS OF MAIN EXPORT PRODUCTS
IN AUGUST-OCTOBER**

Commodity item code	Commodity item	Price		Price change, %	Change of volume, %	Change in value terms, %	Share in export for Jan-Jul 2016, %
		Aug-Oct 2015	Aug-Oct 2016				
Food products:							
1001	Wheat and meslin, USD per ton	171	159	-7	-3	-10	1.9
Топливо:							
2701	Fossil coal USD per ton	58	54	-7	9	1	3.1
2709	Crude oil, USD per ton	338	316	-7	6	-1	27.2
2710	Petroleum products, USD per ton	359	320	-11	-2	-12	16.4
2711110000	Condensed natural gas, USD per cubic m	164	84	-49	-17	-58	0.6
2711210000	Natural gas, USD per thousand cubic m	216	151	-30	4,5	-27	9.9
Chemical products:							
3102	Mineral and azotic fertilizers, USD per ton	215	151	-30	1	-29	0.61
3104	Mineral potassium fertilizers, USD per ton	260	174	-33	-18	-45	0.46
3105	Mixed mineral fertilizers, USD per ton	362	260	-28	0	-28	0.74
2814100000	Anhydrous ammonia, USD per ton	343	198	-42	-6	-46	0.27
4002	Synthetic rubber, USD per ton	1499	1380	-8	0	-8	0.41
Timber and timber art:							
4403	Rough timber, USD/cubic meter	62	64	3	3	6	0.43
4407	Sawn timber, USD per ton	201	200	-1	13	12	1.12
4412	Glued wood, USD per cubic m	439	400	-9	9	-1	0.32
4702–4704	Wood pulp, USD per ton	514	465	-10	2	-7	0.33
4801	Newsprint paper, USD per ton	388	415	7	1	8	0.15
Metals and metal articles:							
72	Ferrous metals, USD per ton	343	354	3	4	7	5.0
72 (кроме 7201–7204)	Ferrous metals (except for cast iron, ferro-alloys, waste products and scrap), USD per ton	362	373	3	7	10	3.6
7201	Cast iron, USD per ton	247	258	4	11	16	0.47
7202	Ferro-alloys, USD per ton	1627	1599	-2	3	1	0.47
7207	Carbon steel semi-products, USD per ton	287	317	11	5	16	1.6
7208–7212	Carbon steel flat rolled products, USD per ton	410	408	0	22	22	1.2
7403	Refined copper, USD per ton	5090	4588	-10	-12	-21	0.82
7502	Rough nickel, USD per ton	10251	9524	-7	-41	-45	0.57
7601	Rough aluminum, USD per ton	1506	1450	-4	13	9	1.7
Machinery, equipment and means of transport:							
840130	Unexposed heat-producing elements (fuel elements), thousand USD per unit	583	443	-24	39	6	0.47
8411123009	Gas-driven turbines with thrust of over 44 kN and maximum 132 kN, USD per unit	4267	3796	-11	-13	-23	0.27
8450111100	Household washing machines, USD per unit	171	163	-5	52	44	0.07
85287240	LC TV sets, USD per unit	343	284	-17	-5	-21	0.06
860692	Open railway cars, USD per unit	16360	17683	8	-45	-41	0.01
8703231910	Cars with engine cylinder work volume of over 1500 cm ³ , but maximum 1800 cm ³ , USD per unit.	7119	8915	25	-21	-1	0.13
8704229108	Other trucks with full weight of 5–20 tons, USD per unit.	35690	30379	-15	27	8	0.05

Source: own calculations based on the data released by FCS.

Table 2

RUSSIA'S EXPORT IN AUGUST-OCTOBER 2016 BY COMMODITY GROUP

Commodity item code	Commodity name	Aug-Oct 2015	Aug-Oct 2016	Growth	Growth rates, %
		Million USD			
01-24	Food products and agricultural primary products (except for textile)	4 787	5 058	270	5.6
25-27	Mineral products	49 501	44 291	-5 210	-10.5
27	Fuel and energy products	48 669	43 503	-5 166	-10.6
28-40	Chemical industry products, rubber	6 307	5 274	-1 033	-16.4
41-43	Rawstock, furs and articles made thereof	59	52	-7	-12.4
44-49	Timber and pulp and paper products	2 368	2 521	153	6.5
50-67	Textile and textile articles and footwear	260	255	-6	-2.1
71	Precious stones, precious metals and articles made thereof	1 784	2 317	533	29.9
72-83	Metals and metal articles	7 760	7 673	-87	-1.1
84-90	Machinery, equipment and transport means, including:	5 967	5 571	-395	-6.6
84	Reactors, equipment and mechanical appliances	1 810	1 739	-71	-3.9
85	Electrical machines and equipment	877	1 092	215	24.6
86	Railway transport	136	167	30	22.4
87	Land transport means	907	744	-164	-18.0
89	Vessels, boats and self-floating structures	500	399	-101	-20.2
90	Food products and agricultural primary products (except for textile)	330	336	7	2.0
68-70, 91-97	Mineral products	873	1 196	323	37.0
	Total exports	79 666	74 208	-5 458	-6.9

Source: Calculations based on the data released by Russia's FCS.

Movement of exports of certain commodity groups in August-October 2016 is explained by the following.

Fuel and energy products. Downward trend in exports of **fuel and energy** products (by 11%) continued owing to the fact that the effect of price reduction by 7–30% in comparison with August-October 2015 exceeded the effect generated by the growth of export shipments volume. Shipments of crude oil have moved up by 6%, coal – by 9%, natural (pipeline) gas – by 4.5%, and shipments of petroleum products have fallen by 2.0% (*Table 1*).

Despite insignificant reduction of deliveries of grain in volume terms (wheat and meslin) seen in August-October 2016 (-3% against August-October 2015) and decline of price by 7% on the whole, exports of **food products and agricultural resources** commodity group have moved up by 5.6% in value terms.

Main reasons for a negative dynamic of **chemical products** exports (reduction by 16%) was a decline of export prices on mineral fertilizers (all types by 28–33%) and on crude oil and chemical utilization of natural gas products (synthetic rubber by 8%). Moreover, exports of potassium fertilizers have fallen (-18%) and of ammonia (-6%).

Price stabilization on **timber and pulp products** together with exports growth of wood products, plywood, paper pulp and paper allowed increasing export value volume by 6.5%.

Exports of **metals** have practically remained unchanged (decline by 1%). Export prices of ferrous metals and their deliveries volume have exhibited moderate growth. At the same time, prices of nickel and aluminum have fallen. Meanwhile, there was a sharp fall of shipments of nickel (by 41.0%).

Overall, exports decline of energy products and chemical products (commodity items 25–40) is explained by deterioration of price environment for Russian exporters (reduction of main prices by 7–42%). Other commodities of medium grade of processing (wood, rawhide, non-precious metals and their products) have exhibited differently directed dynamics both regarding export prices and value volumes, which speaks about general stabilization of the situation. In this commodity group solely copper and nickel have demonstrated a reduction of shipments in volume terms.

Reduction of exports of ***machinery, equipment and means of transport*** in value terms (commodity items 84–90) by \$ 395mn (or 7%) is largely offset by export growth of commodity group “***other products***” (commodity items 91–97) by \$323mn (37%). It should be noted that exports of classified commodity groups (arms and aircrafts), where solely total export volumes are available, partly fall under “machines and equipment” and partially – under the group “other products”. In August-October 2016, of \$ 1.713bn exports of classified commodity groups (\$ 1.713bn in August-October 2015), \$ 1.095bn (\$1.407bn in August-October 2015) were pinned to “machines and equipment” and the rest – to the group “other products”. Thus, hi-tech exports (commodity items 84–97 and classified groups) has remained at the same level: \$6.41bn against \$ 6.49bn in August-October 2015.

Regional commodity turnover structure. During the first nine months of 2016, recent years trend towards a reduction of the EU, EFTA, and Ukraine's share in Russia's trade turnover and growing share of the APEC and EAEU countries continued (Table 3). Since 2013, the share of the EU countries fell most (by 6.5 p.p.) mainly owing to price movement on energy resources, which constitute key component of goods turnover. The share of Ukraine fell by half: from 4.7% in 2013 to 2.2% in January-October 2016. Positive dynamics posted by the APEC members (+5.6 p.p.) is due to increased share of China (3.6 p.p.) and US (1.1 p.p.). Growth of goods turnover with EAEU members (1.1 p.p.) is totally explained by an increased share of Belorussia (+1.0 p.p.).

Table 3

REGIONAL COMMODITY STRUCTURE OF RUSSIA'S TURNOVER 2013–2016
BY MAIN COUNTRIES

Region/ country	Share in turnover, %				Change, p.p.
	2013	2014	2015	Jan-Oct 2016	01-10 2016 against Jan-Oct 2015
EU	49.6	48.1	44.8	43.1	–2.3
Ukraine	4.7	3.5	2.8	2.2	–0.6
Turkey	3.9	4.0	4.4	3.3	–1.2
Norway	0.3	0.3	0.3	0.3	+0.1
Switzerland	1.4	0.9	0.9	1.1	+0.3
APEC, including:	24.8	26.9	28.1	30.1	+2.3
China	10.5	11.3	12.1	14.1	+2.1
USA	3.3	3.7	4.0	4.4	+0.5
Japan	3.9	3.9	4.1	3.5	–0.6
Republic of Korea	3.0	3.5	3.4	3.4	–0.1
CIS, including:	13.4	12.3	12.5	12.2	–0.3
EAEU, including:	7.4	7.2	7.9	8.5	+0.4
Armenia	0.2	0.2	0.2	0.3	+0.1
Belorussia	4.1	4.1	4.5	5.1	+0.5
Kazakhstan	2.8	2.7	2.9	2.8	–0.2
Kirgizia	0.3	0.2	0.3	0.3	+0.0

Source: calculated on the data released by Russia's FCS.

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