MONITORING OF RUSSIA'S ECONOMIC OUTLOOK
trends and challenges of socio-economic development

16(189) August 2025

INDUSTRIAL PRODUCTION DYNAMIC IN Q2 2025

Andrei Kaukin, Candidate of Economic Sciences, Acting Director of the Center for Real Sector, Head of Industrial Organization and Infrastructure Economics Department, Gaidar Institute;

Anastasia Levchenko, Researcher, Industrial Organization and Infrastructure Economics Department, Gaidar Institute

The dynamics of industrial production in the Russian Federation in Q2 2025 showed signs of a transition to stagnation, as confirmed by the near-zero growth rates of the trend component of the industrial production index. The extractive sector had near-zero growth rates after a prolonged downward trend that has been observed since the beginning of 2022. The dynamics of manufacturing industries varied significantly depending on the sector: a steady positive trend was observed in metallurgy, transport equipment manufacturing, the chemical and food industries, while a decline was recorded in such industries as pulp and paper production and the manufacture of rubber and plastic products. A downward trend was observed in wholesale and retail trade.

For a correct interpretation of the trends in individual sectors, it is necessary to break down their output into components: calendar, seasonal, irregular, and trend[1]; the interpretation of the latter is of particular interest. The authors identified the trend component of the production index series for 2003–2025[2] based on current statistics published by Rosstat.

The results of processing the series for the industrial production index as a whole are presented in *Fig. 1*. *Fig. 2* shows the results for the aggregate indices of the extractive, manufacturing, and electricity, gas, and water production and distribution sectors. For the remaining series, the decomposition results are presented in *Table 1*.

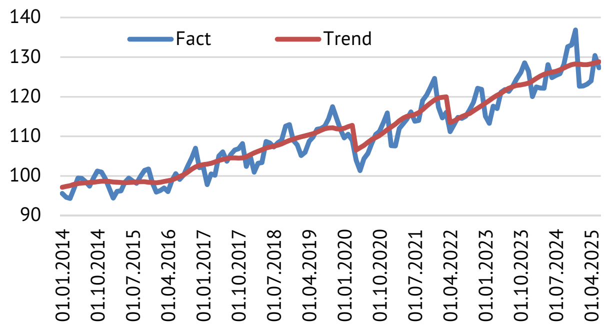

Fig.1. Dynamics of the industrial production index in 2014–2025 (actual data and trend component), % against average annual value in 2016

Sources: Rosstat, own calculations.

1 The trend component is a well-established term used in the literature, but it should be noted that this component is not a "trend" in the strict sense used in econometrics when analyzing time series: in this case, it is precisely the residual from the separation of calendar, seasonal and irregular components. The trend component is incorrect to use for time series forecasting (for most industrial production indices it is non-stationary in levels (and stationary in differences), but it can be used for interpreting short-term dynamics and comparison with past events.

2 The trend component was extracted with the Demetra package using the X12-ARIMA procedure.

In Q2 2025, the trend component (102.08% y/y and 100.57% q/q) may indicate that industrial production is entering a phase of stagnation; the manufacturing sector made a positive contribution to the trend, while mineral extraction saw a slow decline.

The trend component in the extractive sector in Q2 2025 shows near-zero growth rates after a prolonged downward trend observed since the beginning of 2022: 98.96% relative to the previous period and 100.32% compared to the same period last year. Despite the fact that OPEC+ countries began to increase oil production in April 2025, production in Russia remained below the OPEC+ plan due to voluntary cuts and commitments to compensate for oil produced by Russia in excess of the established quotas.[1]

The growth of the Urals oil discount relative to Brent to $12 had a negative impact on crude oil export dynamics, leading to a decline in Russian oil prices below the sanctions ceiling of $60 per barrel. This situation destabilized contractual relations with importers of Russian crude oil due to the threat of secondary sanctions, prompting importers to diversify their sources of supply to reduce their dependence on Russian raw materials.[2] The Russian oil sector faced sales restrictions, which manifested themselves in a 10.8% year-on-year decline in physical deliveries of Russian oil to China (a 24% year-on-year decline in value terms) in the first half of 2025.[3]

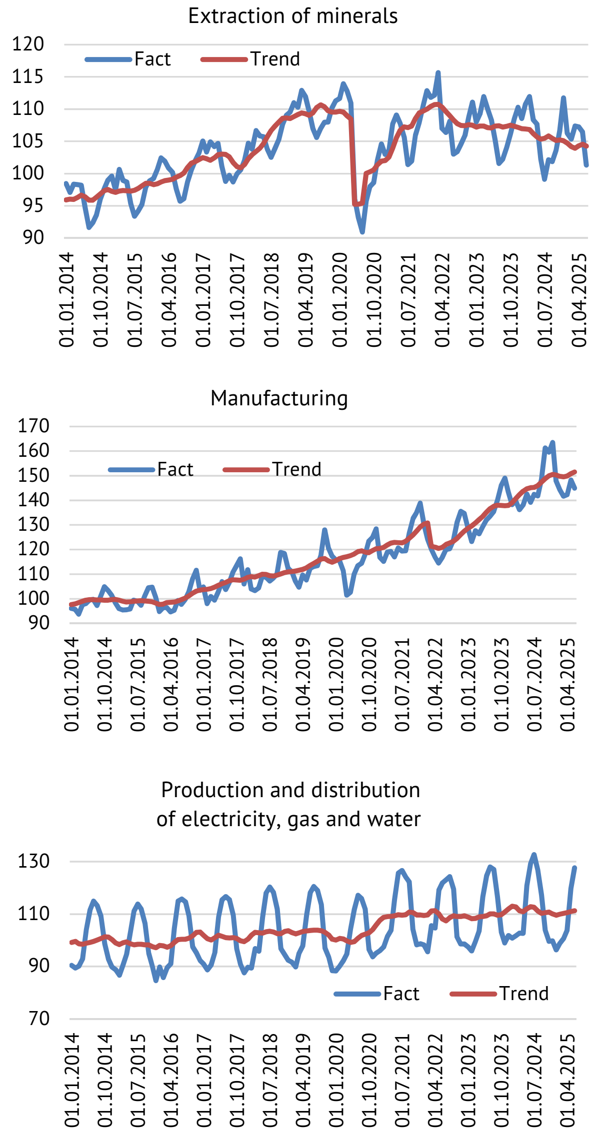

Fig. 2. Dynamics of the production indexes by industries in 2014–2025 (actual data and trend component), in % on average year value 2016

Sources: Rosstat, own calculations

The redirection of Russian oil flows to Asia is hampered by a shortage of tankers, low capacity of the Eastern Oil Pipeline, and port congestion.

The stagnation of the natural gas production sector is due to profound structural shifts in the export model. The complete cessation of transit through Ukraine since January 2025 has led to a 20% y/y decline in pipeline exports (to 4.5 bn m^3 in the first half of the year). The share of Russian pipeline gas in

1 OPEC: Russia increased oil production in June but remained below quota // Investing, July 15, 2025. URL: https://ru.investing.com/news/general-news/article-2828600

2 Overview: hydrocarbon exports plummeted in Q1 due to sanctions // RIA, June 02, 2025. URL: https://riarating.ru/macroeconomics/20250602/630281450.html

3 *Solovyova, O.* Russia will have to look for new oil buyers // NG 29.07.2025. URL: https://www.ng.ru/economics/2025-07-29/1_9304_petroleum.html

Industrial production dynamic in Q2 2025

Table 1

Change in the output index as per industry

Industry	Share in the industrial production index, %	June 2025 On June 2024, %	June 2025 on March 2025, %	Changes in the last months
Index of industrial production		102.08	100.57	Stagnation
Extraction of minerals	34.54	98.96	100.32	Stagnation
Manufacturing	54.91	104.44	101.32	Sluggish growth
Production of foods, including drinks and tobacco	16.34	109.31	102.38	Growth
Textile and dress making production	1.14	104.95	102.01	Growth
Production of leather, leather items, and production of shoes	0.27	92.25	97.83	Recession
Wood manufacturing and production of wood items	2.02	90.86	95.09	Recession
Cellulose – paper production	3.35	73.80	92.26	Recession
Production of cox and petroleum products	17.25	101.60	100.59	Stagnation
Chemical production	7.56	112.27	102.61	Growth
Production of resin and plastic items	2.14	92.50	96.74	Recession
Production of other non-metallic mineral products	4.02	90.27	95.71	Recession
Metallurgical production and production of finished metallic items	17.42	121.23	106.07	Growth
Production of machinery and equipment	6.97	99.03	99.09	Sluggish recession
Production of electric equipment, electronic and optical equipment	6.27	102.32	99.92	Stagnation
Production of transport vehicles and equipment	6.75	121.82	102.01	Growth
Other productions	2.42	98.63	99.59	Stagnation
Electric energy, gas and water	13.51	98.66	100.94	Sluggish growth
Wholesale trade		92.87	97.06	Recession
Retail trade		100.42	99.32	Sluggish recession
Ton miles		99.50	99.22	Sluggish recession
Construction		102.55	99.97	Stagnation
Agriculture		103.74	100.26	Stagnation
Paid services to population		102.31	100.46	Stagnation

Sources: Rosstat, own calculations.

Europe's gas demand during this period was less than 8%.[1] At the same time, LNG exports faced sanctions pressure: the EU ban on the transshipment of Russian LNG to third countries triggered a 35% y/y decline in April deliveries to the EU.[2]

The restoration of natural gas production in Russia in the medium term faces restrictions on pipeline exports: ongoing EU sanctions are blocking the resumption of supplies to Europe,[3] while expansion into the Chinese market is being held back by the capacity limits of Power of Siberia-1 (38 bn m^3/year) and the suspension of the Power of Siberia-2 pipeline project due to pricing disagreements.[4] The development of the LNG segment targeting Asian markets depends on the implementation of infrastructure projects for the Northern Sea

1 *Alexandrov, K.* Russia to cut gas production due to serious problems // URA, 26.07.2025. URL: https://ura.news/news/1052969929

2 *Bakhtina, O.* LNG supplies from Russia to the EU fell in April 2025. And what about China amid the trade war? // Neftegaz.ru April 26, 2025. URL: https://neftegaz.ru/news/spg-szhizhennyy-prirodnyy-gaz/887616-ieefa-postavki-spg-v-es-iz-rf-upali-v-aprele-2025-g-silno/

3 Reuters has learned that Russia and the US have discussed resuming gas supplies to the EU // RBC, May 8, 2025. URL: https://www.rbc.ru/politics/08/05/2025/681cb1439a79476b6ad7802c

4 *Kosterova, M.* China considers gas supply route from Russia via Kazakhstan too expensive // RBC, April 15, 2025. URL: https://www.rbc.ru/politics/15/04/2025/67fe4ffc9a7947bea2faf6c0

Route and the construction of a specialized fleet,[1] but there are still risks of price competition with Qatar and the US in Asian markets and potential tightening of sanctions.

Negative factors for the Russian coal industry include the fall in average world prices for thermal coal to $64–83 per ton and the strengthening of the ruble, which reduced the profitability of coal production in ruble terms.[2] More than 66% of companies in the industry are operating at a loss, with the net loss for the first half of the year reaching Rb 112 bn.[3]

In Q2 2025, the trend component in the construction industry continued the previous quarter's trend and showed a near-zero trend (102.55% y/y and 99.97% q/q). The rise in loan costs triggered a decline in mortgage demand, which was exacerbated by a record oversupply. The financial burden on the industry remains high due to the high cost of project financing, which led to a decline in housing delivery and a slowdown in the launch of new residential projects. In the first five months of 2025, housing delivery declined in four federal districts: by 28.5% (to 3.1 million square meters) in the North Caucasus Federal District; by 11.7% (to less than 7.7 million square meters) in the Volga Federal District; by 5.8% (to 1.8 million square meters) in the Far Eastern Federal District; by 4.5% (to less than 3.9 million square meters) in the Ural Federal District.[4]

The dynamics of the trend component of the manufacturing sector (104.44% y/y and 101.32% compared to the previous period) in Q2 2025 varies significantly depending on the sector. Positive dynamics were shown by industries focused primarily on domestic demand and production to replace imported products. The highest growth rates were recorded in metallurgical production due to the production of finished metal products, excluding machinery and equipment (January-June +13.6% y/y). The aircraft manufacturing sub-sector grew by 66.3% y/y in the first half of the year, which was the main driver of positive dynamics in the manufacture of transport equipment. The chemical industry strengthened its position thanks to the production of pesticides and other agrochemical products (January-June +19.8% y/y)[5] due to an increase in the area of cultivated land and the introduction of modern plant protection technologies.[6]

In pulp and paper production, output fell by 1.7% in January-June due to sanctions restrictions on exports to the EU and a decline in demand for packaging. Production of other non-metallic mineral products (ceramic bricks, concrete products) declined amid the crisis in construction: production of ceramic building materials fell by 11.8% y/y in H1 2025.[7]

The rise in credit costs triggered a contraction in consumer demand and investment activity, which led to a decline in the trend component of freight traffic (99.22% compared to the previous period). Logistical imbalances

1 *Kostrinsky G.* LNG accounted for more than half of the cargo traffic on the Northern Sea Route // RBC, February 02, 2025. URL: https://www.rbc.ru/economics/20/02/2025/67b600549a79479b3c106fca

2 *Aseva N.* Under the weight of problems. Prospects for Russian coal miners // Finam, June 04, 2025. URL: https://www.finam.ru/publications/item/pod-gnetom-problem-perspektivy-rossiyskikh-ugolshchikov-20250604-1746/

3 More than 50 coal companies in Russia are on the brink of closure or have already closed // RBC, July 15, 2025. URL: https://www.rbc.ru/business/15/07/2025/687605fd9a79471fa1368685

4 *Pavlova-Katkova N.* The decline in housing construction has accelerated by half // RBC, June 16, 2025. URL: https://realty.rbc.ru/news/68504e219a794792a72e6a3b

5 According to Rosstat.

6 *Kulistikova T.* Pesticide consumption and production may increase significantly. URL: https://www.agroinvestor.ru/markets/news/43789-potreblenie-i-proizvodstvo-pestitsidov-mogut-znachitelno-uvelichitsya/

7 According to Rosstat.

had a negative impact on freight transportation: a shortage of cargo caused domestic carriers' fleets to idle, which led to a decrease in freight rates, while transportation costs rose due to higher lease payments and repair costs.[1]

The outlook for Russian industrial production in H2 2025 will be determined by geopolitical factors. The oil sector may face limited effectiveness of OPEC+ measures due to the threat of high US tariffs and sanctions pressure on logistics. The gas industry is likely to continue to face structural constraints due to the EU embargo on LNG and technological sanctions blocking the reorientation of exports. The coal industry may face increased price competition in Asia and infrastructure deficits. Polarisation is likely in the manufacturing sector: metallurgy and transport engineering may receive support from defense orders, while the pulp and paper and polymer industries may contract due to export restrictions and dependence on imported components. Trade and logistics risks are associated with potential secondary sanctions against transit countries (Turkey, Kazakhstan). The stability of production will depend on the adaptation of supply chains and the pace of technological modernization in import-dependent industries.

1 *Belya, A*. Cheap will become expensive: freight carriers are confident of imminent tariff increases // Forbes, 07.04.2025. URL: https://www.forbes.ru/biznes/534320-desevoe-stanet-dorogim-gruzoperevozciki-uvereny-v-skorom-roste-tarifov?abRecommendationArticles=dsrkcbcntv