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trends and challenges of socio-economic development

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INDUSTRIAL PRODUCTION DYNAMIC IN Q1 2025

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The dynamics of the trend component of the industrial production index in Q1 2025 indicated a slowdown in growth rates and a possible transition to stagnation. The pre-mining sector continued to demonstrate a downward trend, which has been observed since the beginning of 2022. The construction industry and retail trade had about zero growth rates. Positive trend was observed in such branches of the manufacturing sector as production of vehicles and equipment, as well as metallurgical production.

To correctly analyze the available trends in certain industries, it is necessary to decompose their output into components: calendar, seasonal, non-regular and trend;[1] the interpretation of the latter is of substantial interest. The authors have identified the trend component of the series of production indices for 2003-2024[2] on the basis of actual statistics published by Rosstat.

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

In Q1 2025, the dynamics of the trend component indicate the transition of industrial production to the stagnation phase; the processing sector made a positive contribution to the dynamics; a slow decline was observed in the extraction of minerals.

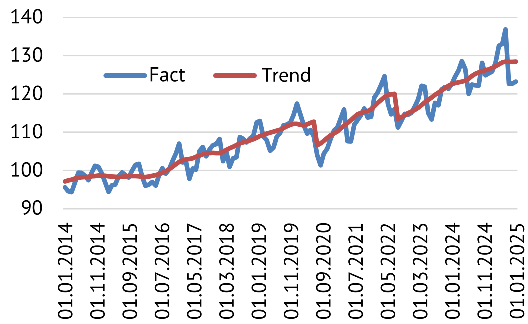

Fig. 1. Dynamics of the industrial production index in 2014–2025 (actual data and trend component), % against average annual value in 2016

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.

The trend component in the extractive sector in Q1 2025 continues the trend of the previous year and demonstrates a decline: 98.55% relative to the previous period and 96.78% compared to the same period last year. The main factor affecting the dynamics of the index in the extractive sector in the first quarter of the current year was the extension of the agreement on voluntary additional reduction of oil production between the OPEC+ member countries until the end of March 2025, as the industry accounts for a significant share in the sector.[1] From April 2025, the Russian Federation, in accordance with the OPEC+ plan, has started to increase oil production, which will last until September 2026. However, in the future, the obligations to compensate for the volumes of oil produced by Russia in excess of the established quotas may have a restraining effect on production dynamics.

In Q1, Russian crude oil exports decreased due to lower crude oil exports to Turkey and through the Druzhba pipeline to Europe. China reduced its purchases of crude oil and petroleum products on the back of increased domestic production of minerals.[2] In the future, the threat of secondary sanctions may lead to a decrease in demand for Russian oil. For example, Indian refiners are studying the possibility of diversifying oil supplies to reduce dependence on Russian crude in order to reduce the risks associated with possible sanctions against the Russian energy industry.[3] The suspension of publication of statistics on oil production volumes was extended by the Russian government until April 1, 2026, which limits detailed analysis.[4]

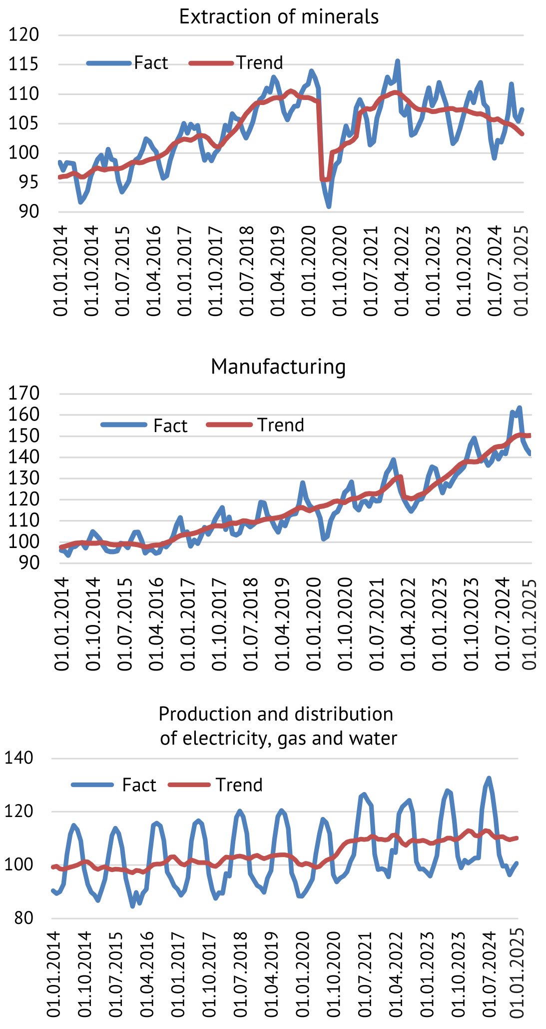

Fig. 2. Dynamics of the production indexes by industries in 2014–2025 (actual data and trend component), in % on average year value 2016

Sources: Rosstat, own calculations

Negative factors for the dynamics of the Russian coal industry were both risks on external markets stemming from falling coal prices, reduced exports of Russian coal and lower demand for coal on the domestic market, and logistical constraints caused by the limited capacity of the Eastern polygon, rising railroad transportation tariffs and infrastructure

1 *Khasanova A.* OPEC downgrades oil demand growth forecast for 2025 by 150,000 barrels per day // Neftegaz 15.04.2025. URL: https://neftegaz.ru/news/finance/886444-opek-ponizila-prognoz-rosta-sprosa-na-neft-v-2025-g-na-150-tys-barr-sutki/

2 The IEA noted a $0.7 bn increase in Russia’s oil export revenues in March. // Interfax 15.04.2025. URL: https://www.interfax.ru/business/1020905

3 *Chin Y., Cheong S.* Trump’s Russian Oil Threat Pushes India to Seek Alternatives // Bloomberg 01.04.2025 URL: https://www.bloomberg.com/news/articles/2025-04-01/trump-s-russian-oil-threat-pushes-india-to-seek-alternatives?srnd=homepage-europe

4 RF Government Edict of 12.04.2025 No. 894-p “On extending until April 1, 2026, the suspension of the provision and dissemination of official statistical information”.

limitations in ports. In Q1 2025, coal prices remained at a low level, continuing the trend of Q4 of the previous year. At the same time, under sanctions, Russian suppliers are forced to offer discounts to buyers, which, along with high logistics costs, reduces the industry's profitability.[1] Russian coal exports in the first quarter of 2025 slightly exceeded last year's figure by 2% due to deliveries to China under previously concluded long-term contracts. In March this year, coal shipments to China increased by 9% YoY and 5% YoY compared to the previous month. There is a decrease in Russian coal supplies to Turkey due to a decline in exports from the ports of the Azov-Black Sea basin. In addition, India reduced imports of thermal coal grades, increasing its own production, which led to a decrease in coal shipments in this direction.[2]

Natural gas production dynamics were affected by a decrease in domestic demand due to abnormal climatic conditions and the suspension of Russian gas transit through Ukraine's gas transportation system as of January 1, 2025. In addition, associated petroleum gas (APG) production was negatively impacted by the fulfillment of obligations under the OPEC+ deal. Liquefied natural gas (LNG) production in Russia in February 2025 decreased by 5.9% YoY and by 11.0% YoY. Such dynamics can be explained, among other things, by the negative impact of sanctions imposed by the U.S. on January 10, 2025, against 2 medium-capacity LNG plants - Gazprom LNG Portovaya and Cryogas Vysotsk.[3]

The main positive contribution to the dynamics of industrial production in Q1 2025 was made by some branches of manufacturing industry. Positive dynamics was shown by the industries focused mainly on domestic demand and production under the import substitution program. The highest growth rates were observed in the production of other vehicles and equipment (including aviation equipment, shipbuilding, etc.). On the one hand, there was an increase in the production of passenger cars due to the launch of new brands of domestic models and government support of the industry. On the other hand, the production of buses and trucks declined due to the reduction in purchases of municipal passenger transportation and competition from Chinese companies. The production of finished metal products continued the positive dynamics of the previous year. The current dynamics is due to the substitution of foreign production with the products of Russian manufacturers, as well as to the growth of demand for products that are intermediate to meet the state defense order. The output of the chemical complex increased mainly due to the growth in the production of medicines, due to the implementation of state programs for the development of domestic pharmaceutical production, as well as the production of mineral fertilizers[4] due to increased demand from Brazil, UAE, Peru, Indonesia, Argentina and South Africa.[5]

1 *Trifonova P.* Coal sees into the bowels of the earth // Kommersant 23.01.2025. URL: https://www.kommersant.ru/doc/7445980

2 *Polifanova T., Skorlygina N.* Coal focuses east // Kommersant 17.04.2025. URL: https://www.kommersant.ru/doc/7659307

3 *Alifirova E.* Weather and sanctions. Gas production in Russia in January-February 2025 down 7.5%, LNG production down 4.4% // Neftegaz 27.03.2025. URL: https://neftegaz.ru/news/dobycha/884469-pogoda-i-sanktsii-dobycha-gaza-v-rossii-v-yanvare-fevrale-2025-g-snizilas-na-7-5-proizvodstvo-spg-na/

4 On the dynamics of industrial production // Ministry of Economic Development. URL: https://www.economy.gov.ru/material/file/a397d302b02235c474f6017b9c6eabe6/o_dinamike_promyshlennogo_proizvodstva_mart_2025_goda.pdf

5 *Eletina V.* Why demand for Russian fertilizers is growing and how possible EU sanctions have affected it // RBC 20.02.2025. URL: https://www.rbc.ru/business/20/02/2025/67b5cb039a79472e3ca92fb3

Table 1

Change in the output index as per industry

Industry	Share in the industrial production index, %	March 2025 on March 2024, %	March 2025 on December 2024, %	Changes in the last months
Index of industrial production		102.59	100.02	Stagnation
Extraction of minerals	34.54	96.78	98.55	Sluggish recession
Manufacturing	54.91	105.65	99.72	Stagnation
Production of foods, including drinks and tobacco	16.34	109.22	102.04	Growth
Textile and dress making production	1.14	106.96	98.81	Sluggish recession
Production of leather, leather items, and production of shoes	0.27	93.20	103.70	Growth
Wood manufacturing and production of wood items	2.02	99.44	99.47	Stagnation
Cellulose – paper production	3.35	76.77	93.22	Recession
Production of cox and petroleum products	17.25	99.43	99.75	Stagnation
Chemical production	7.56	114.41	103.18	Growth
Production of resin and plastic items	2.14	99.22	100.43	Stagnation
Production of other non-metallic mineral products	4.02	94.30	99.53	Stagnation
Metallurgical production and production of finished metallic items	17.42	121.32	105.70	Growth Recession
Production of machinery and equipment	6.97	98.66	97.75	спад
Production of electric equipment, electronic and optical equipment	6.27	108.30	101.54	Growth
Production of transport vehicles and equipment	6.75	144.24	109.70	Growth
Other productions	2.42	101.09	105.16	Growth
Electric energy, gas and water	13.51	99.04	100.12	Stagnation
Wholesale trade		97.79	97.31	Recession
Electric energy, gas and water		102.49	100.49	Stagnation
Wholesale trade		99.98	99.31	Sluggish recession
Electric energy, gas and water		96.54	99.55	Stagnation
Wholesale trade		100.11	102.30	Growth
Electric energy, gas and water		102.55	100.53	Stagnation

Sources: Rosstat, own calculations.

In Q1 2025, the construction industry entered the stagnation phase. The number of launches of new construction projects in the regions of the Central Federal District decreased by 43% YoY. The CFD accounts for almost one third of all housing under construction in Russia. The negative dynamics is due to the decrease in investor activity, the end of favorable mortgages and the growth of market rates.

A potential challenge to the growth of the Russian industry in 2025 will be the reduction in purchases of Russian energy resources by India and China, driven by the increase in their own production and the threat of secondary sanctions under the U.S. trade policy. The slowdown in global demand for oil, as well as the increase in production in South American countries indicate that balancing the market may become impossible for the OPEC+ deal participants and lead to its collapse. As a result, increased competition in the oil market may have a negative impact on the Russian oil industry.

Also constraining industry growth could be a slowdown in machinery and equipment activity caused by lower demand from the construction sector, which is one of the largest consumers of machinery and construction products, as well as expensive credit and labor shortages limiting supply expansion.