NATIONAL RESEARCH UNIVERSITY HIGHER SCHOOL OF ECONOMICS   DEVELOPMENT CENTER

Commentary on State and Business

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December 28th, 2017 – January 24th, 2018

1. Composite Leading Indicator: No extremes

In December the Composite Leading Index (CLI) fell to 2.6 from 4.4 in November. This confirms that the pick-up in November was largely due to the low base in the oil market, rather than more fundamental factors. At the same time, the trend in the CLI suggests that slow growth (possibly verging on stagnation) is the most likely scenario for the Russian economy, rather than a new recession.

The main positive factor impacting on the index in December came from the oil price, which averaged $63/barrel, or 22% above the December 2016 level. The oil price is currently close to $70/b, which is probably sufficient to prevent the economy from moving back into recession.

It should also be noted that according to data from the OECD, new orders rose significantly for the second month in a row in December. If this trend continues, it will point to growth in domestic demand, the most important factor in the economy. Falling interest rates and an increase in the money supply are further positive signals.

The CLI suggests a new recession is unlikely, but this does not mean that Russia is entering a phase of sustained, dynamic growth. Weak growth with short positive and negative fluctuations appears the most likely scenario.

2. Regional Economic Activity: Stabilising at the pre-crisis level

In November 2017 the Composite Index of Regional Economic Activity (REA) fell insignificantly, suggesting a flattening of the trend. Looking from a regional perspective, Russia's economy has reached the pre-crisis level of 2013-14. However, there is no evidence of further improvement and the pre-crisis state was characterised by a lengthy period of stagnation rather than stable growth.

In November 2017 the REA fell from 58.8 to 54.9. While the decline was small, it suggests that the trend of gradual improvement in the economy has come to an end. The REA has fluctuated around the 55% level for half a year – only just above the critical 50% mark – and shows no signs of rising further. At the same time, one of the five main sectors of the economy and two of eight federal districts remain below the 50% mark, indicating that problems remain on both a sectoral and geographic level.

The REA industrial index stood at 51% in November, which points to unexpected problems in this sector of the economy: output fell in almost half of the regions compared with last year. Serious problems remain in the construction sector. The REA index for this sector was just 29% in November. On the other hand, there is a clear sign of a sustained recovery in retail trade (which stood at 89%) after more than two years of decline. Wholesale trade (57%) and paid services (54%) also performed well compared with last year.

On the level of federal districts, the worst performance was recorded in the North Caucasus (46%) and the Far East (49%). Output grew in all other regions compared with last year, in particular in the Southern Federal District (60%).

On a regional level, the REA in November exceeded 50% in 47 federal subjects out of 82. The number of regions in which all five main sectors contracted or all but one sector contracted rose from six to nine in November. The number of regions in which either four or all five sectors recorded growth fell from 22 to 21. It should be noted that the number of regions in which four or all five sectors recorded growth is significantly lower than is typical for a period of steady economic growth. Although there has been an improvement in the overall economic situation (particularly compared with mid-2015, the lowest point of the recession), it is also clear that the recovery of the Russian economy is proceeding slowly and a significant number of regions remain in a state of stagnation or even recession.

The most problematic region according to the November data (REA=0) was Kabardino-Balkaria, in which all five sectors contracted. A further eight regions recorded contraction in four out of five sectors (REA=20%). These nine regions account for 4.6% of Gross Regional Product (GRP) in Russia.

The most successful regions according to the November data were Belgorod, Tambov and Kaliningrad oblasts, where all five sectors recorded growth (REA=100%). In a further 18 regions, growth was recorded in four out of five sectors (REA=80%). In total, these regions account for 19% of Russian GRP. In 53 regions economic output has risen "on average" over the past three months (September-November 2017). No region recorded an average REA over the past three months below 20%. The best-performing regions (with an average REA above 80% over the past three months) were Belgorod, Karelia, Kaliningrad oblasts, and Primorsky Krai. Overall, the geographical spread of regions and the depth of decline in output has stabilised, suggesting that the Russian economy has moved into a period of stagnation rather than post-crisis catch-up growth.