Barents Monitoring
Arkhangelsk Oblast second quarter 2009

The Social-Economic Development of Arkhangelsk Oblast in April-June 2009[1]

TRENDS

The situation in the economy of Arkhangelsk Oblast remains tense, but relatively stable. Most industrial sectors are developing on a lower level than normal, experiencing a further reduction of profitability, difficulties in access of credit resources and shrinking demand for the traditional goods on the domestic and export markets. The most dramatic situation is observed in the timber industry while the other sectors of industry demonstrate gradual restoration of former production levels. The creditor debts of the companies and organizations by the end of June 2009 grew eight percent from the beginning of the year or more then sixteen percent year-on-year. The number of unprofitable enterprises increased significantly especially in the processing industry (+11%). Another negative factor is the falling volume of crediting of industrial companies, which dropped 12 percent from the beginning of the year. At the same time, companies' wage arrears are growing quickly. From the beginning of the year this indicator increased from 1,2 to 74,1 million rubles. The companies' lower profits also badly influence the state of the regional budget, which subsequently creates difficulties in the regional administration's execution of social obligations. The share of the profit taxes in the regional

[1] This report is written by the Arkhangelsk office of the Norwegian Barents Secretariat. Figures are taken primarily from the Arkhangelsk regional statistics service

budget, which is one of its main pillars dropped more than 10 times – from 24,5% in 2008 to 2,3% in 2009, - and this may bring unpredictable consequences for the social sphere of the region in the future.

INDUSTRIAL PRODUCTION

After a dramatic drop in the end of the last year and the beginning of 2009 the regional industrial production index experienced significant growth in February and March, and this trend continued in all the second quarter of the year. The total industrial production growth totaled an optimistically 5,2 percent from the beginning of the year. However, this growth was mainly achieved due to positive dynamics in the mining industry, while other sectors of the economy continued to decline. The companies in the mining industry have demonstrated an impressive rate of development and by the middle of the year gave over 38 percent of surplus compared to the same period of the last year.

The manufacturing industry encountered sufficient decline in April and May, which has been partly compensated by a 20 percent monthly growth in June. However, the final half-a year result of the manufacturing industry development was only at 86 percent level of the corresponding period last year. The most serious decline has been observed in the timber industry (over 30% drop compared with 2008), textile and clothing manufacture (almost two times drop), machine building and equipment production (minus 46%) while food production was relatively stable.

Diagram 1. Index of industrial production 2009
(% to the correspondent period of the last year)

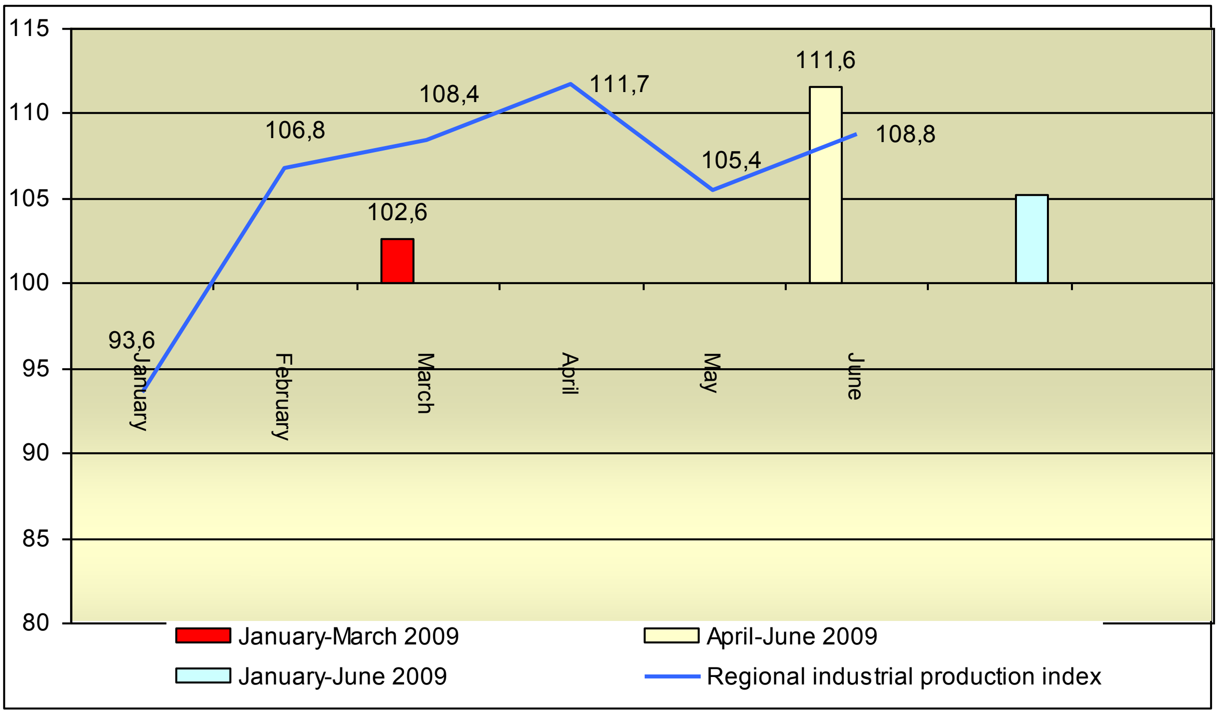
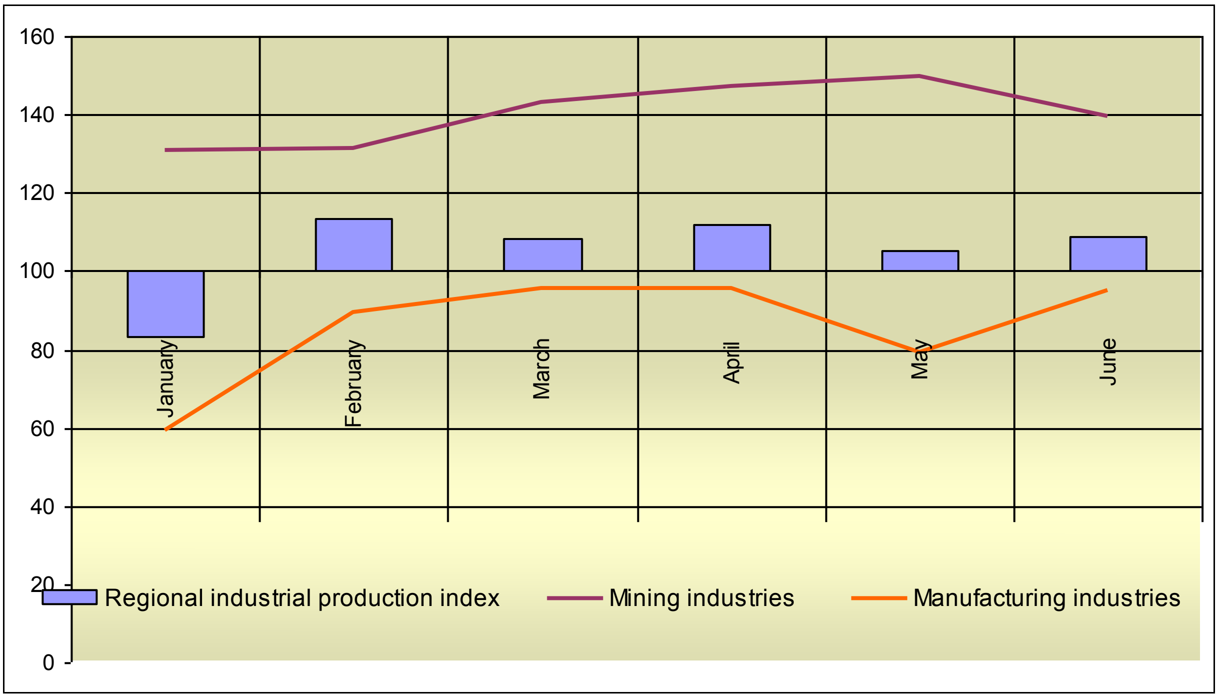


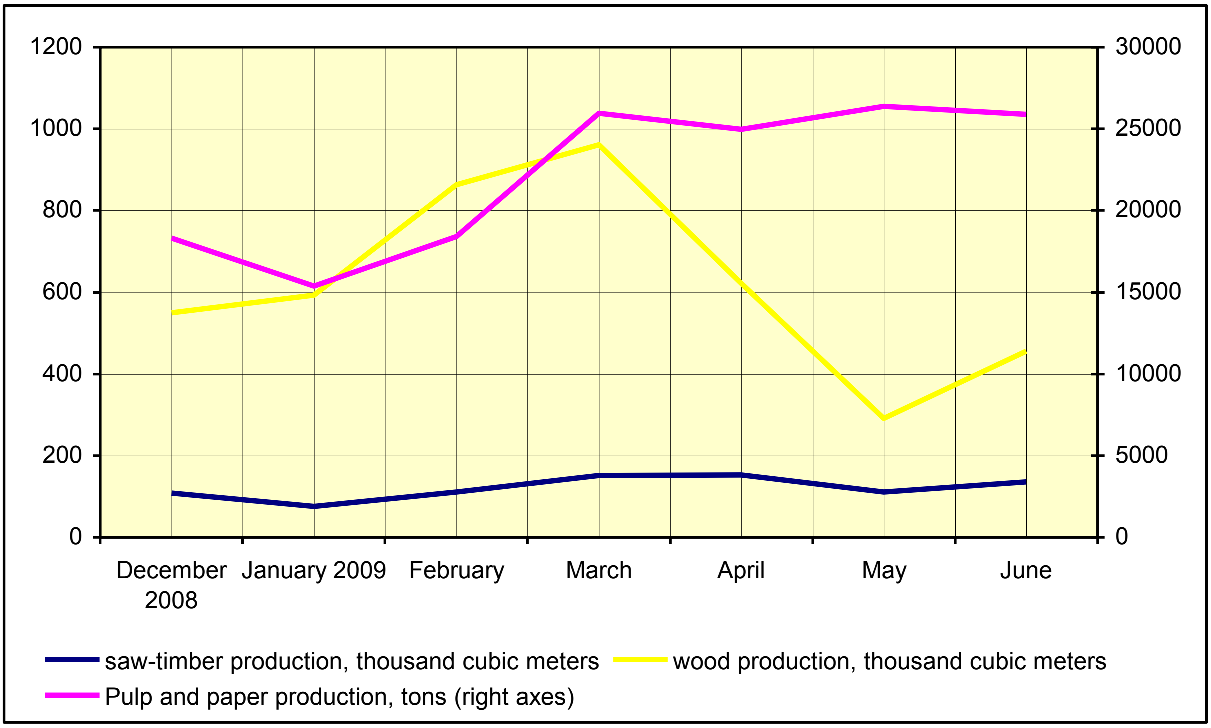
Diagram 2. Index of industrial production in the mining and manufacturing industries in 2009
(% to the correspondent period of the previous year)



Timber Industry.
The saw-timber production ended up on its lowest levels in ten years even despite an impressive 40 percent jump in the second quarter of the year. The final mid-year level was still more than 25 percent lower than in the same period of 2008. The second quarter of the year is traditionally bad for the wood processing industry due to seasonable factors. Consequently, the real dynamic in this sector will be clear only when the results of this year's third quarter results are ready. In the second quarter of the year, the wood production fell 43 percent compared with the first quarter level and by 19 percent compared with the corresponding period last year. The trend in general corresponds with the situation elsewhere in Russia.

The situation in the pulp and paper industry is slightly better and the positive dynamic demonstrated in February and March continued in this sector in all the second quarter of the year. Despite the continuing negative market opportunities, one could carefully say that this branch of industry in general has overcome last year's catastrophic drop and is gradually approaching normal monthly records. Nevertheless, the volume of production in this dominant industrial sector of the region totals only 87% of the 2008 results.

Diagram 3. Timber sector



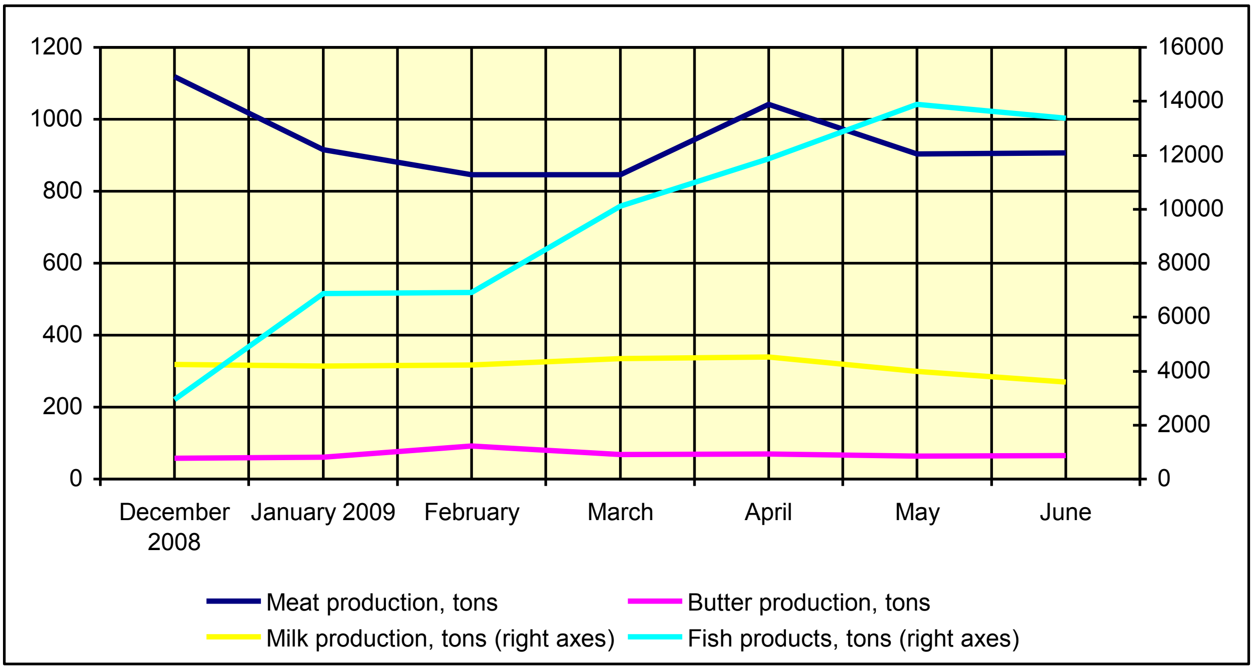
Agriculture.

Rather unexpected growth was registered in the agricultural production which added 2,7 percent to the last year's level.

Food industry.

The situation in the food industry seems relatively good. Along with a slight fall in the production of milk and butter, the meat production grew nine percent in April-June and added an impressive 40 percent to the corresponding last year's level. The production in the fish processing industry grew the second quarter by over 36 percent and is developing close to the levels of last year.

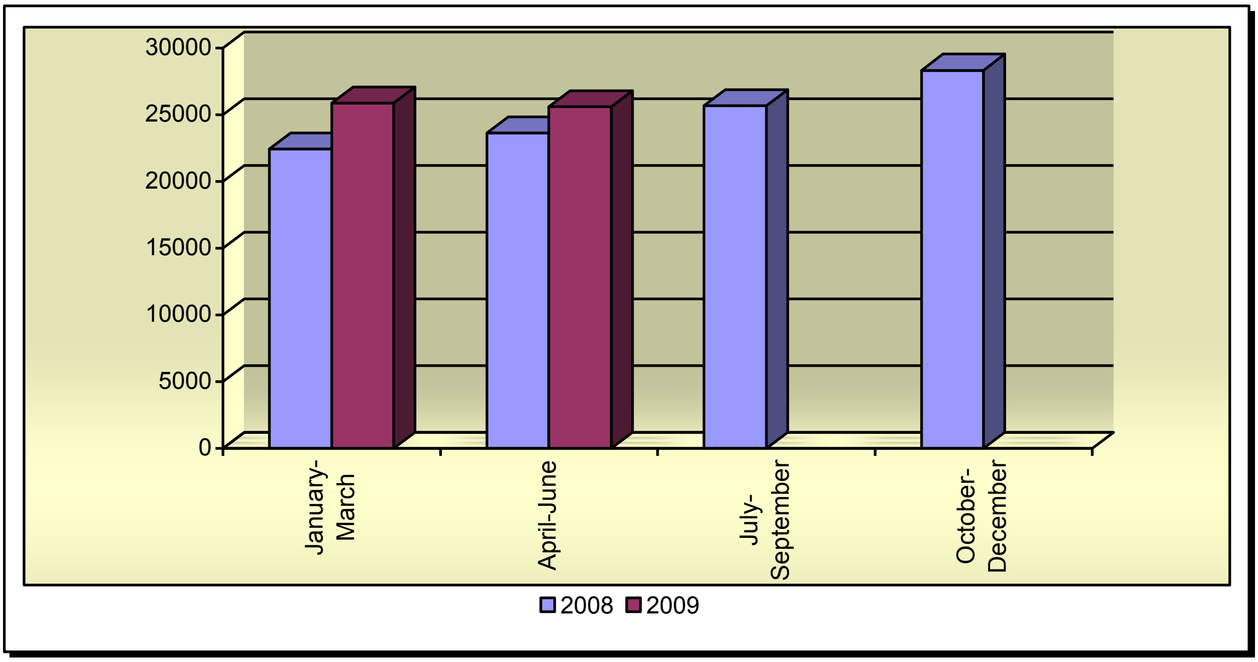
Diagram 4. Food industry



Chemical production.
Considerable growth was demonstrated by the chemical industry which recommenced last year's production drop in the first quarter of the year and added a 30 percent surplus in the second.

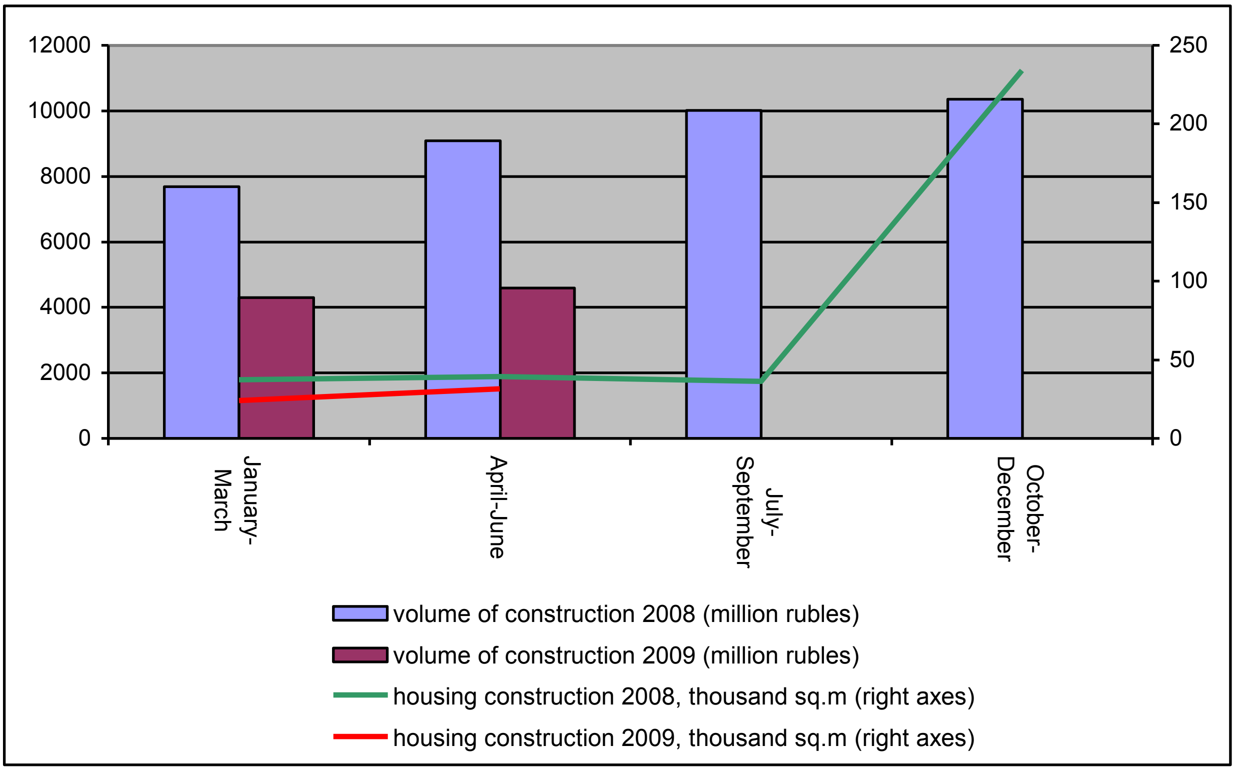
Retail trade.
The turnover of the retail trade in April-June grew in absolute figures. However, when taking into account the inflation rate, it still had a five percent drop in April and stayed on the same level in May and June. The total decline in retail turnover from the beginning of the year till the end of June totaled almost one percent. The biggest drop of the retail turnover was registered in the sector of non-food goods trade (minus 5,3%) and catering (minus 5,1%).

Diagram 5. Retail trade turnover
(million rubles)



Construction industry.
The regional construction industry remains on its lowest level in five years. Still, the second quarter of the year showed a significant growth in this sector. From the beginning of the year growth amounted to seven percent. The biggest growth was registered in housing construction (23%), which almost reached last year levels. The crisis in the construction activity has negatively influenced the production of construction materials. The production of cement in April-June dropped by more than 30 percent compared with last year's level, production of ferroconcrete items – almost twice, production of construction bricks –almost by 58 percent.

Diagram 6. Construction industry



Oil and gas production.
Oil production in the second quarter of the year continued its growth and totaled a record-high of 4,62 million tons – almost five percent increase from the beginning of the year. Natural gas production is growing with even more impressive rates. From the start of the year the natural gas production grew by over 20 percent and in June 2009 amounted to almost 140 thousand tons, which is twice more than the last year.

Oil is produced in the Nenets Autonomous Okrug, an associate part of Arkhangelsk Oblast.

Diagram 7. Oil production in Arkhangelsk oblast in 2008-2009
(Thousand tons)

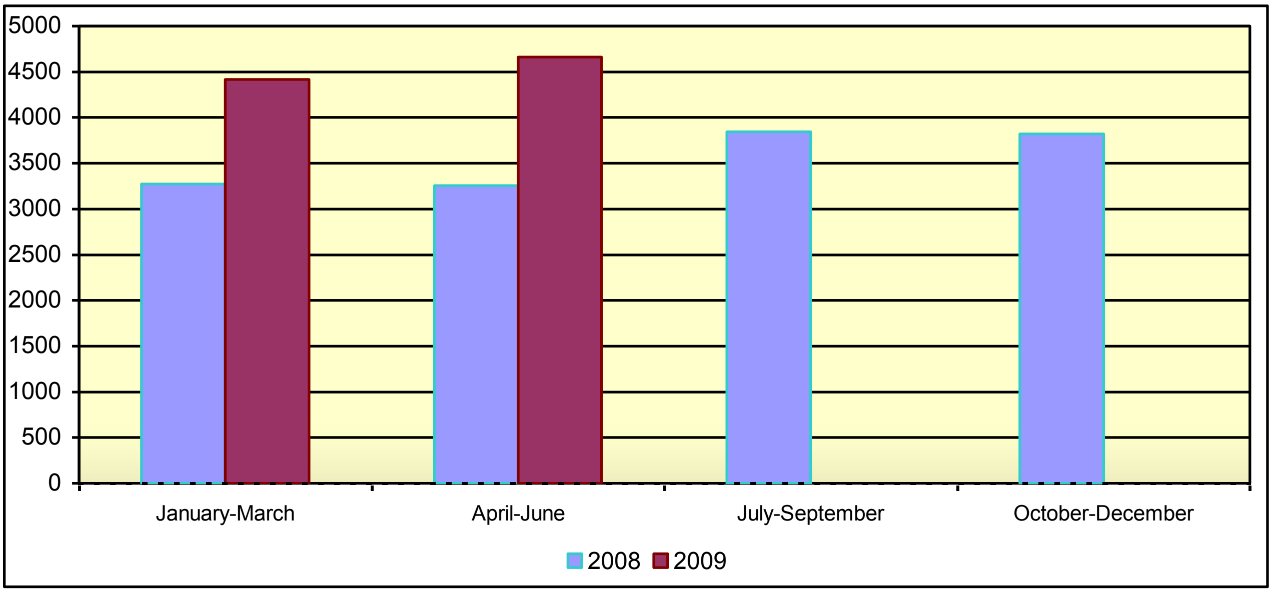
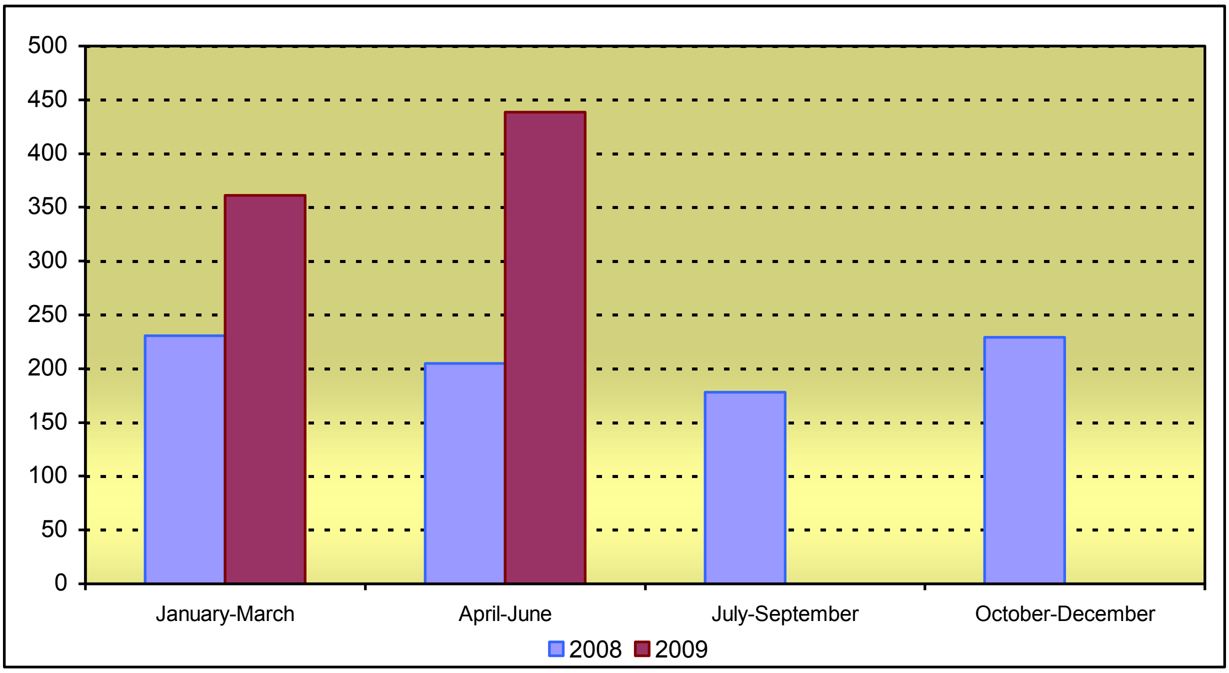
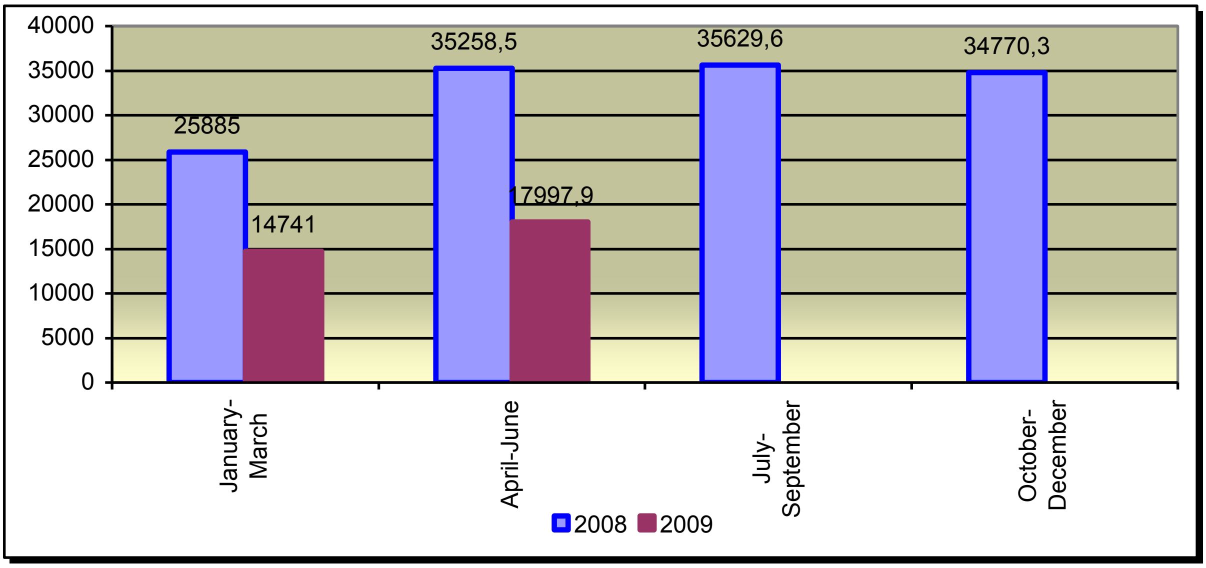


Diagram 8. Natural gas production in Arkhangelsk oblast in 2008-2009
(mln. cubic meters)



Investments.
The investment activity in the big and medium-sized enterprises remained on the same level as in Q1, which is almost twice lower then in the same period last year. The results in this sector are much worse than the Russian average, where the drop in capital investments was around ten percent. In the second quarter however the optimists could register a slight growth of overall investments (8 percent) but only in comparison with the catastrophic levels of January-March.

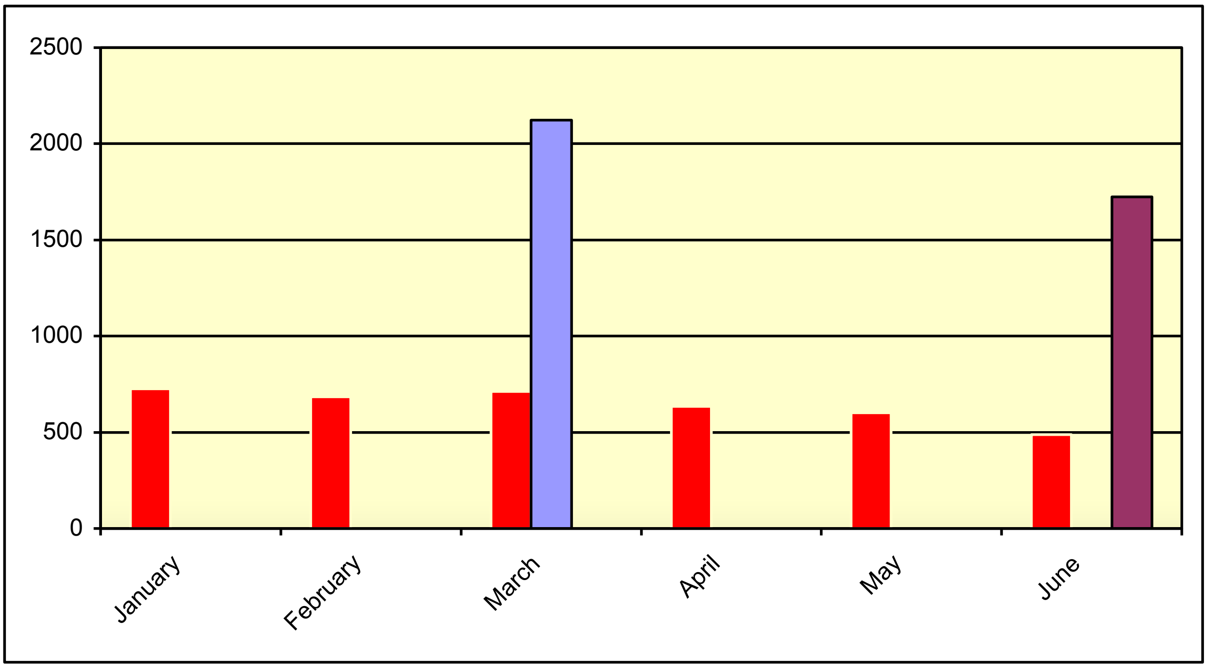
Diagram 9. Investments in the main capital
(million rubles)



Power generation.

The electric power generation follows the general trends in the industrial production and thus experienced a drop in the period. In the second quarter of the year the electric power generation dropped 19 percent. This fact however can be partly explained by the seasonal effects demonstrated in the second and the third quarters yearly. From January till the end of June 2009 the total drop in the monthly electric power generation amounted to almost 33 percent.

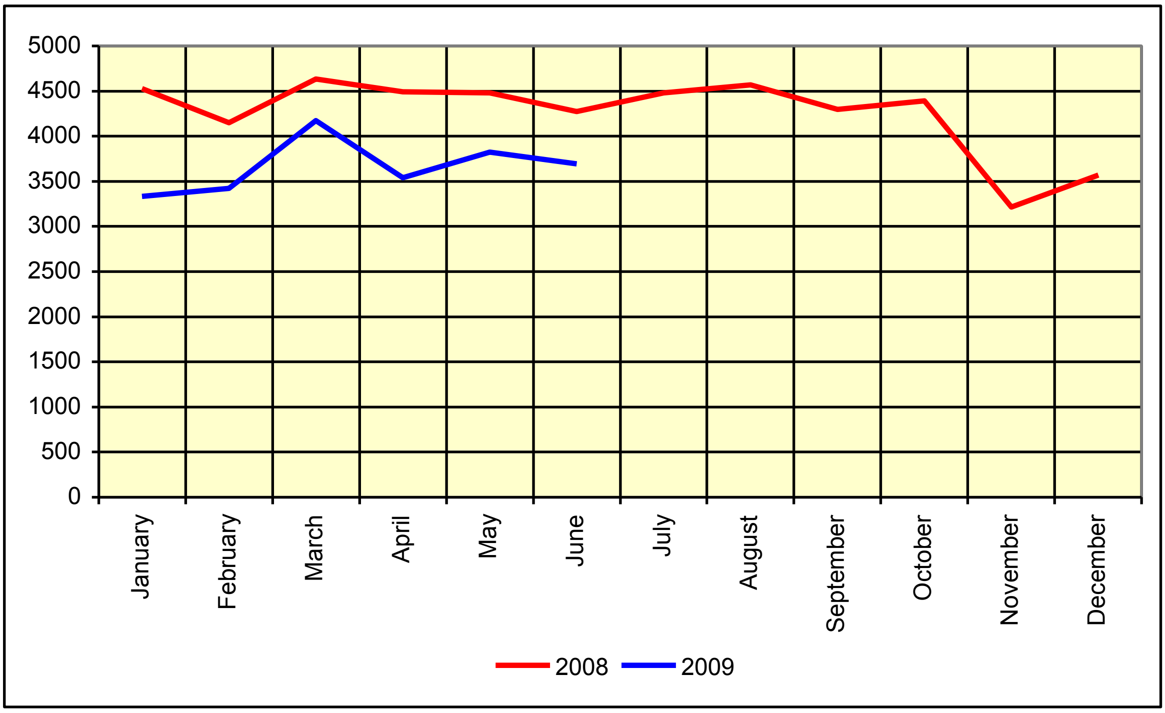
Diagram 10. Electric power generation in 2009 *(million KWH)*



Cargo turnover.

After a short growth in the first quarter of the year, the cargo turnover dropped significantly in April-June and ended up on the levels registered 6-7 years ago. That is approximately 20 percent lower than the corresponding level of the last year. The average monthly levels of the railroads cargo transportation in the second quarter was approximately only about 30 percent of last year's results and almost 1,5 times lower than two years ago. However, in the second quarter of the year the railroad cargo transportation started to grow and saw a 9 percent increase compared to the first three month.

Diagram 11. Cargo transportation turnover in Arkhangelsk oblast in 2008-2009. *(Million ton/km)*



Regional budget.
Due to the fall of industrial production and shrinking of the profits of the regional enterprises the revenues to the regional budget have dropped significantly. At the same time the regional budget spending increased almost 7 percent compared with the last year's level. The biggest growth in budget spending was seen in the social and health care sectors (more than 30 percent year-on-year) while spending on education dropped. Budget investments in the industry, energy sector and construction, which normally amount to 4-6 percent of the regional budget, have now been reduced to a zero level. The regional budget deficit in the middle of the year totaled 100 million rubles, which is a bad sign ahead of the heating season.

POPULATION

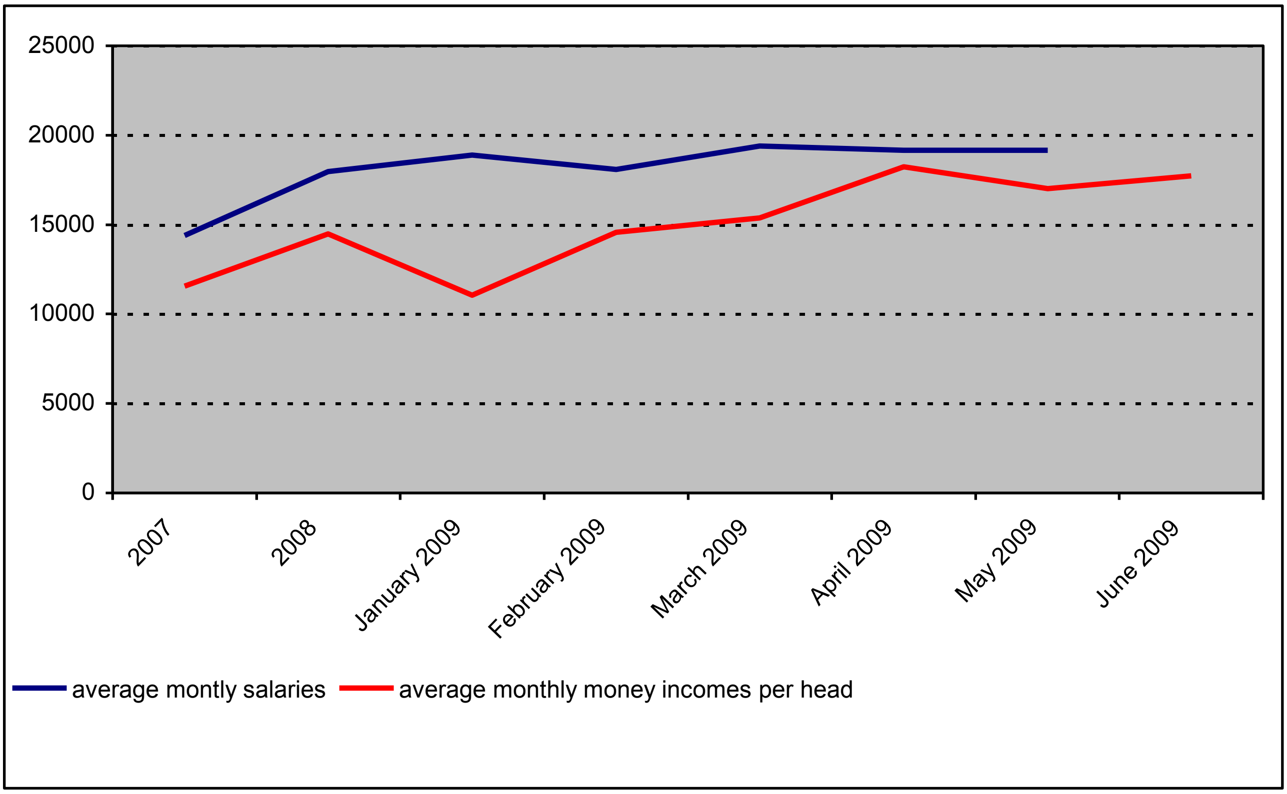
Demography.
The statistics show a slight improvement of the demographic situation in the region. The number of newborns for the six months of the year amounted to 7600 compared with 7400 in the corresponding period last year. The number of people died was 9100 against 9500 in the same period last year. The birth rate amounted to 12,2 per thousand inhabitant which is better than in the previous years. For example, in 2005 the birth rate was only 10,7 per thousand. The death rates are still on a high level – 14,6 per thousand.

Incomes.
The statistics do not show any serious decline in regional life standards. Actual money incomes of the population are still growing. The average monthly salary increased 14 percent in the first quarter of the year and by over eight percent in April-June compared to the same period of the last year[2]. The per capita monthly money incomes in absolute figures increased by almost 20 percent in the first half of the year compared to 2008. The average age pension grew by 13 percent. The fact that the material situation of the people is so far rather safe is also proved by the groing volume of the bank deposits which added 2 billion for 6 months of the year. The average amount of the bank deposit has also grown up.

Diagram 12. Incomes of population

[2] The figures of the average monthly salary for June 2009 was not included in the quarterly statistic report

(rubles)



Unemployment.
The number of officially registered unemployed increased from the beginning of the year by 2300 and overall registered unemployment totaled 19200 by the end of June. This is 30 percent higher than in the same period in 2008. The positive factor on the labor market is that the number of vacancies which was going down for the last 11 months has slightly increased in the second quarter of the year. Nevertheless, the number of vacancies is still 40 percent lower than in the middle of last year.

Diagram 13. Level of unemployment in Arkhangelsk oblast
(thousand people).