

Barents Monitoring Murmansk Oblast first half 2010

The Social-Economic Development of Murmansk Oblast in January-June 2010¹



TRENDS

On the whole, economic situation in the first half of the year 2010 in Murmansk Oblast can be characterized as tense. Most of the indicators show negative dynamics.

As regards the industrial sector, the mining industry is performing better than other industries. It has recovered after a decline in late 2008 - early 2009 and gradually restores its production level. Some recovery of this segment has also led to growth in transportation.

The mining sector is mostly export-oriented, and the currently favorable environment in the foreign markets has considerably helped its recovery.

As regards the processing industry, negative tendencies prevail. Production volumes in the metallurgical industry, which constitutes a major part of the processing sector, underwent small changes. However other branches experience significant decline in production.

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

These tendencies are followed by investment cutbacks and a reduction in imports of industrial machinery and equipment.

The construction branch experienced some revival due to works on state-owned objects. Nevertheless, by mid-2010 dynamics of this sector were negative.

The situation within fisheries is the same as last year, when the positive figures of Q1 were replaced by a considerable drop in Q2.

The situation in the social sector remains stable. The tendency of salary growth persisted. Consumer's demand, as well as the retail market, started to recover. Authorities succeed in keeping control over the official unemployment level. Nevertheless, figures according to ILO methodology show some growth in the number of unemployed.

INDUSTRIAL PRODUCTION

The figures for the first half of 2010 show a continuation of negative tendencies in regional industrial production. Changes in the industrial production index for the first half of the year indicate an industrial decline. Despite the fact that figures for January-June 2010 were 5,4 percent higher than in the same period last year (lower than the Russian average of 10,2%) this growth must be seen on the backdrop of a "low base" effect, against a background of catastrophic fall of industrial production in 2009.

A more detailed analysis of the different sectors of industrial production shows that the final positive figure of 5,4 percent was solely determined by the recovery in the mining sector - the mining operations in the 1st quarter of 2010 grew 16,1 percent compared to year 2009. The indicators in the processing industry were negative practically for the whole period. Consequently, the index for the processing industry was down 5,5 percent in the first half of the year 2010.

Some growth in production and distribution of electric energy, gas and water in the 1st quarter was compensated by a drop in the 2nd quarter, over the first half of the year it was up only 0,2 percent year-on-year.

Diagram 1.1 Industrial production index in 2009-2010
(% to the correspondent period of the last year)

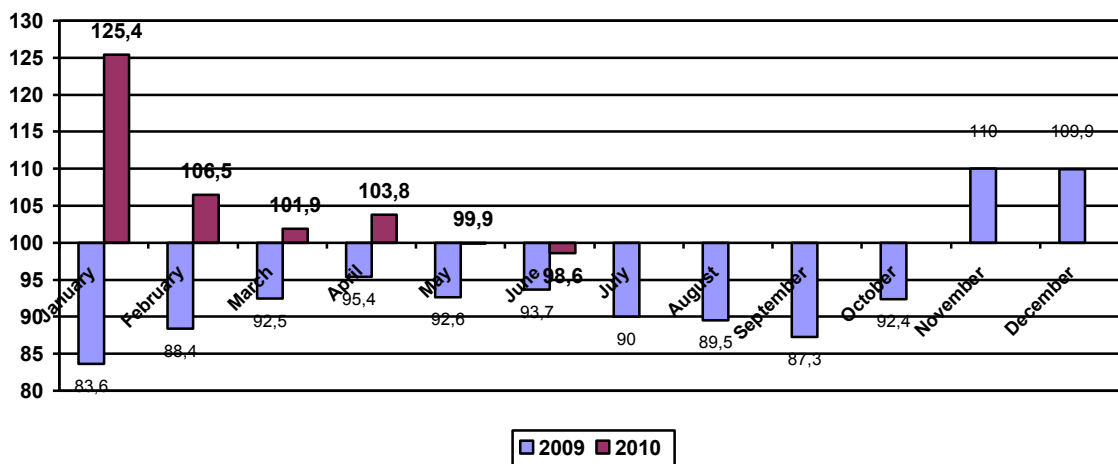
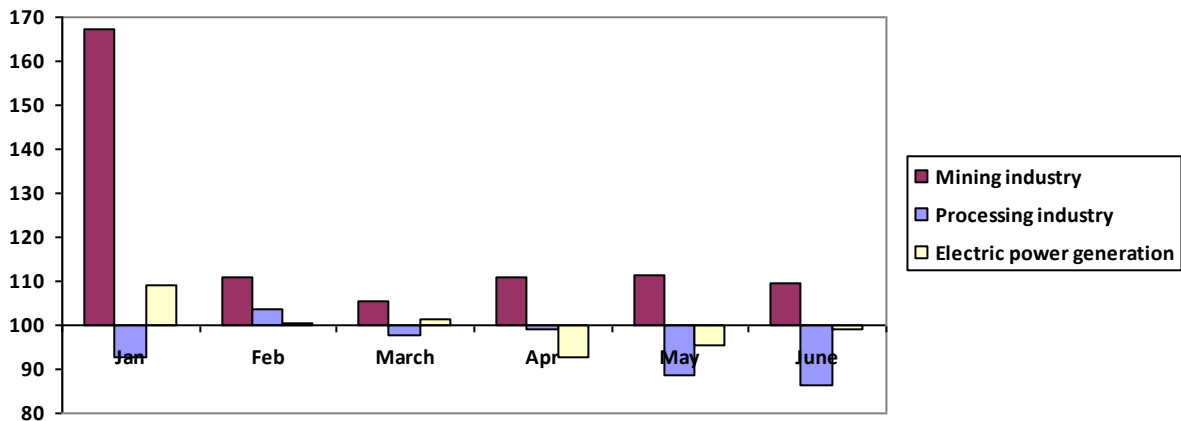


Diagram 1.2 Industrial production indexes in different sectors of economy
(%, to the correspondent period of the last year)

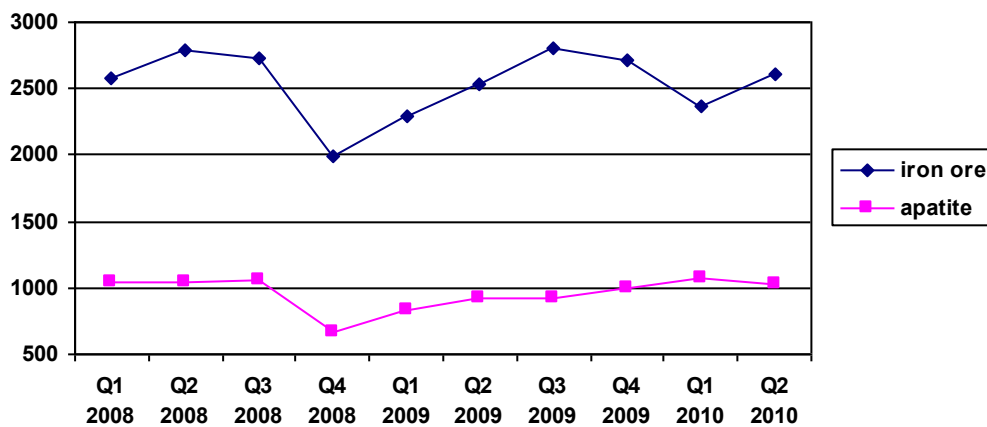


Mining

Against the background of overall negative dynamics in industrial production, the mining sector looks quite stable and even shows recovery.

The index growth of 16,1% compared to the same period in 2009 is mainly explained by the low figures of year 2009. Nevertheless, production of apatite and baddeleyite concentrates exceeded the pre-crisis level. The production of iron-ore concentrate increased less (103,2% compared to the same period in 2009).

Diagram 1.3 Mining industry (thousand tons)



Processing industry

Over the 1st half of the year, the situation in the processing industry worsened. The production index amounted to 94,5% compared to the same period in 2009 (compared to a Russian average of 114,3%).

The lowering of the production index in the period January-June was largely determined by the situation in the ship repairing complex, where operations dropped 44,8 percent. This can be explained by the specific feature of ship repair production, which is oriented at state defence orders.

The volume of metallurgical production in the period dropped slightly and totaled 99,4% of last year's level. Meanwhile, the production of alumina (16,2%) and metal goods (16,7%) increased, but production of nickel, copper and cobalt dropped respectively 0,1 percent, 2,3 percent and 14,7 percent.

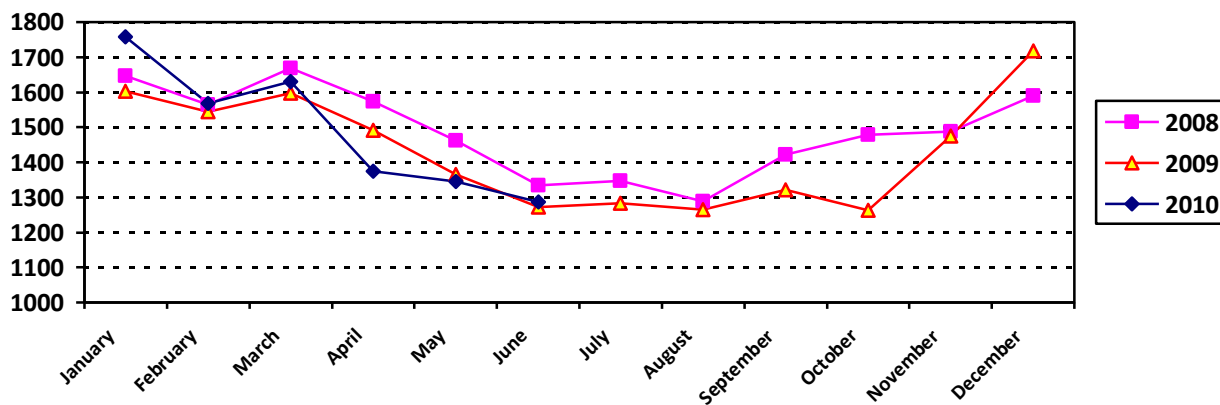
There was also a considerable drop in construction-related branches (more than 40%). These are wood processing and woodwork manufacturing (by 62,2%), lumber (22%), production of other non-metal mineral products (by 56,3%), due to a considerable decline in production of concrete (by 75,3%).

Electric power generation

The production index for electric energy, gas and water remained on the same level as last year (up 0,2 percent year-on-year, which is lower than the national average of 5,6%).

There was some increase in electric power generation in the 1st quarter, trend which must be seen in the connection with a production increase in a few electricity-consuming activities (chemical and metallurgical productions). However, growth in this sector was replaced by decline in the 2nd quarter.

Diagram 1.4 Electric power generation in 2008-2010.



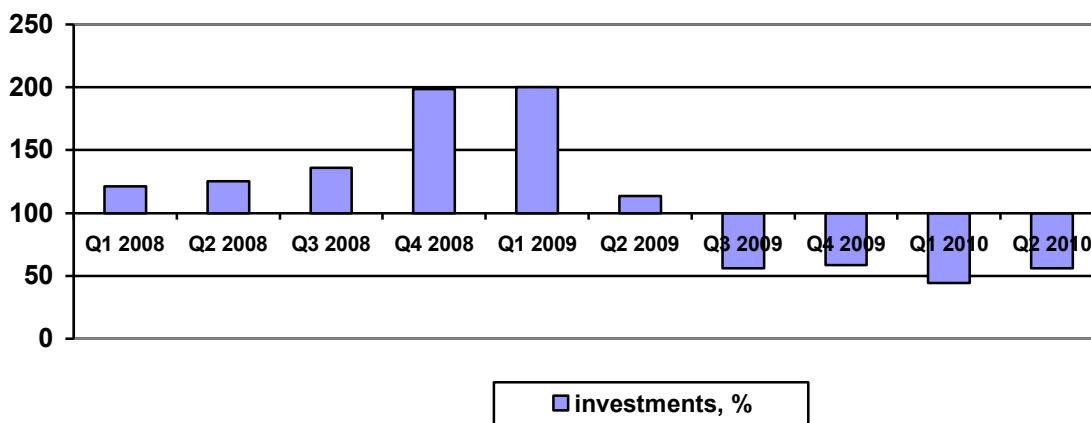
ECONOMY

Investment

The financial crisis still has an impact on the volume of investments in the main capital. In the period January-June 2010, the investment volume totaled 10,4 bln RUB, which is down 42,4 percent year-on-year.

The negative dynamics in the investment volume persists four quarters in a row.

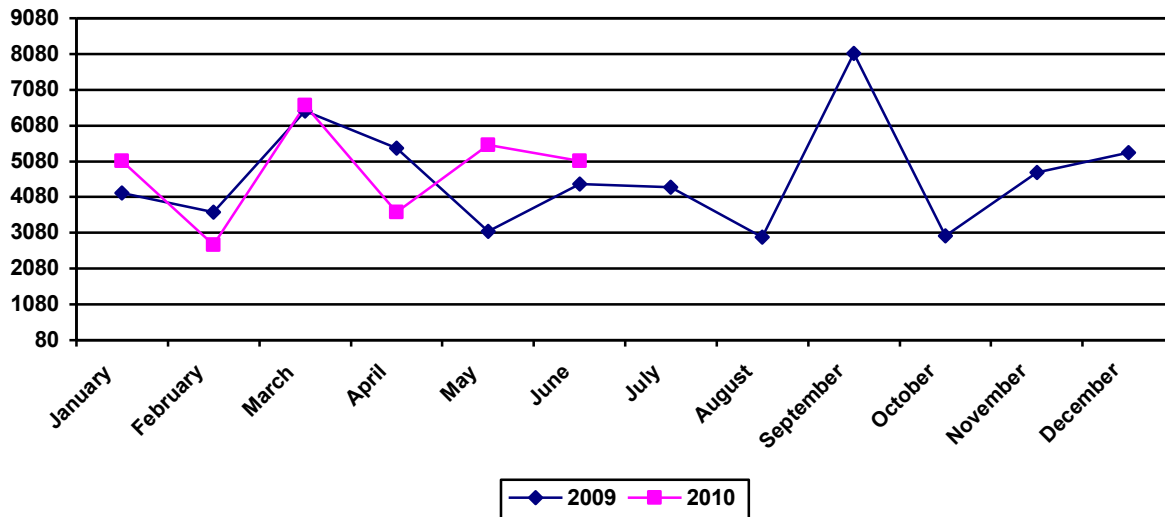
**Diagram 2.1 Investments in the main capital
(%, to the correspondent period of the last year)**



Transport

The output growth in mining production in the first half of the year led to an increase in volumes of cargo transportation. In the period transport companies handled 20 mln. Tons, which is 18,6 percent more than in the same period in 2009. The cargo turnover on all types of transport increased by 5,1 percent compared to 2009. The railway cargo turnover was up 4,4 percent. At the same time, the cargo turnover within road transport dropped 4,8 percent.

Diagram 2.2 Cargo transportation turnovers in 2009-2010 (million tons/km)



Fishing industry

The trend of growing catch level and fish production, registered in early 2009, remains the same this year. In the 1st quarter of 2010 the catch level increased considerably compared with the same period in 2009. However, that was followed by a sudden drop in the 2nd quarter. On the whole, the production index in fisheries increased 17,9 percent year-on-year.

Diagram 2.3 Fishery in 2009-2010 (% , to the correspondent period of the last year).

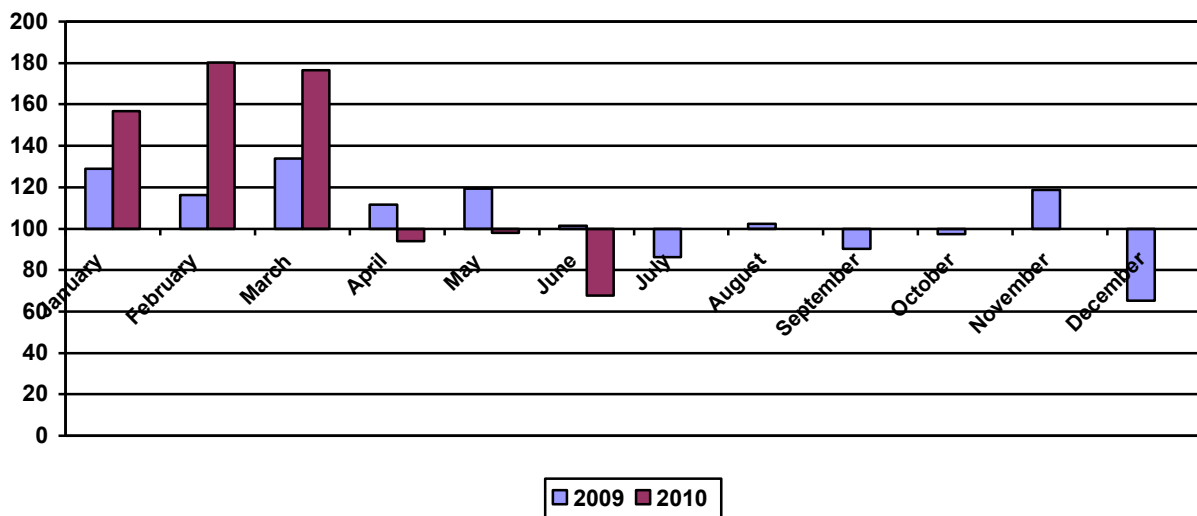
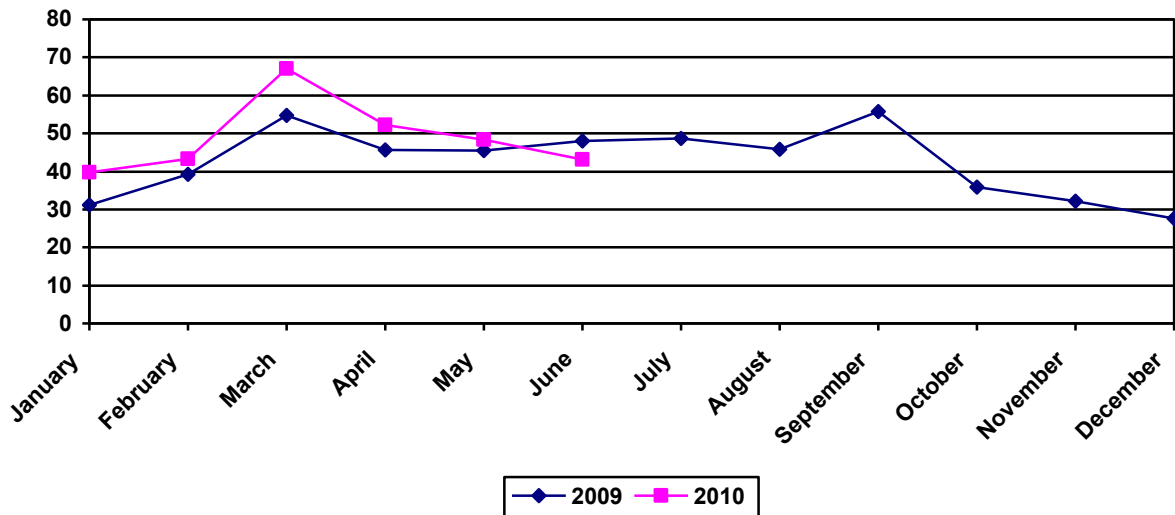


Diagram 2.4 Fish production in 2008-2009 (thousand tons) .



Construction industry

After a considerable drop in construction volumes in 2009, the construction industry started to recover this year. The growth in the volumes can be explained by works conducted on state-owned nuclear power objects.

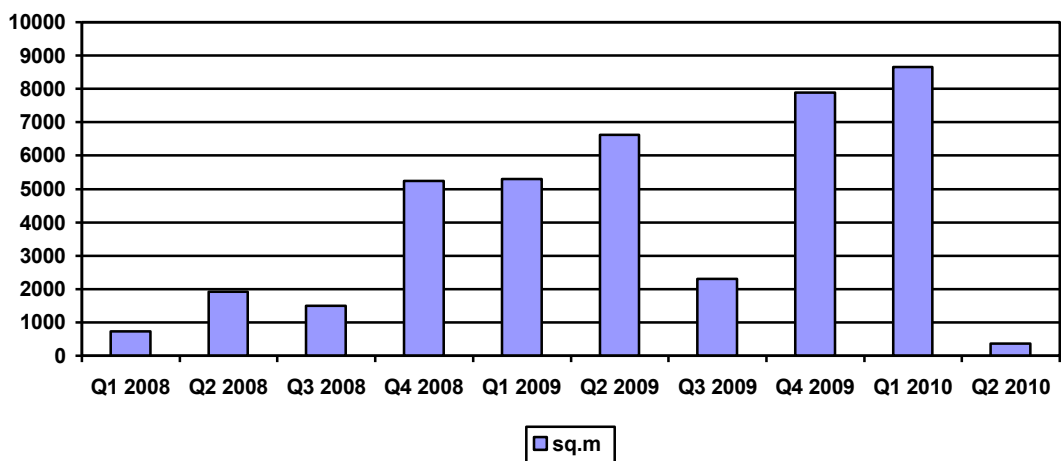
Over the first half of the year, the construction volumes increased 11,6 compared with the same period last year. Nevertheless, when analysing the figures of each month taken separately, one can see that the dynamics are not stable. There was a certain reduction in the sector in the 2nd quarter.

Because of the drop in the volume of housing stock introduced in the 2nd quarter of 2010, the figures for housing construction in the first half of the year were by 25% lower than in the same period last year.

Diagram 2.5 Construction industry in 2009-2010 (% to the correspondent period of the last year).



Diagram 2.6 Housing constructions in 2008-2010 (sq. m)



Foreign trade

In the 1st quarter of the year, exports in Murmansk Oblast increased by 48,1 percent year-on-year while the imports decreased 68,1 percent year-on-year.

The share of metals and metal products increased to 60,2 percent of the total exports (in January-March 2009 it was 49,7%). The revenue increase on the export is primarily connected with the price rise in the world market on non-ferrous metals. However, the physical volumes of non-ferrous metals export dropped.

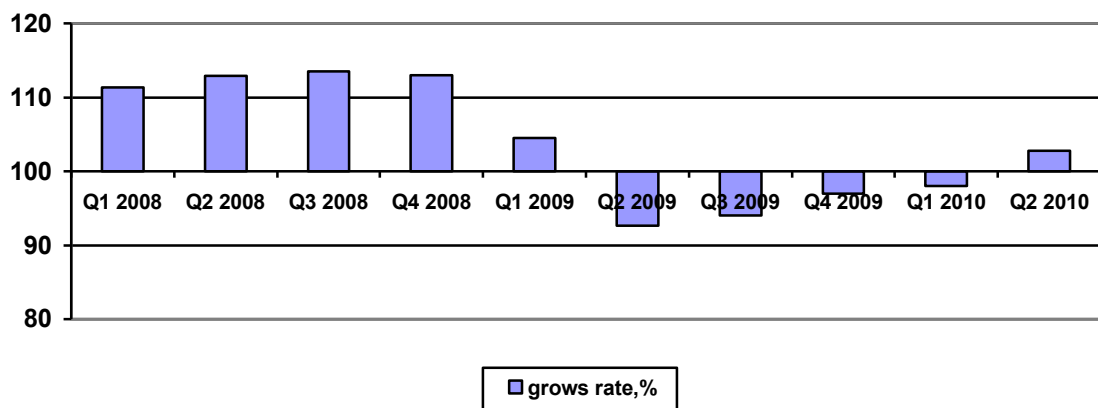
Meanwhile, physical volumes and the cost of mineral products export increased.

The share of chemical industry and caoutchouc in the structure of imports increased. While the import of cars, equipment and transport vehicles dropped sharply. The main reason for that is the lower investment activity of the local enterprises.

Consumer market

In the first half of the year the retail market turnover stagnated as well, as in the market of public services. Over the first half of the year the consumer market volumes increased for the first time since the 1st quarter of 2009 (0,6%).

Diagram 2.7 Consumer market index 2008-2010



POPULATION

Population and labor market

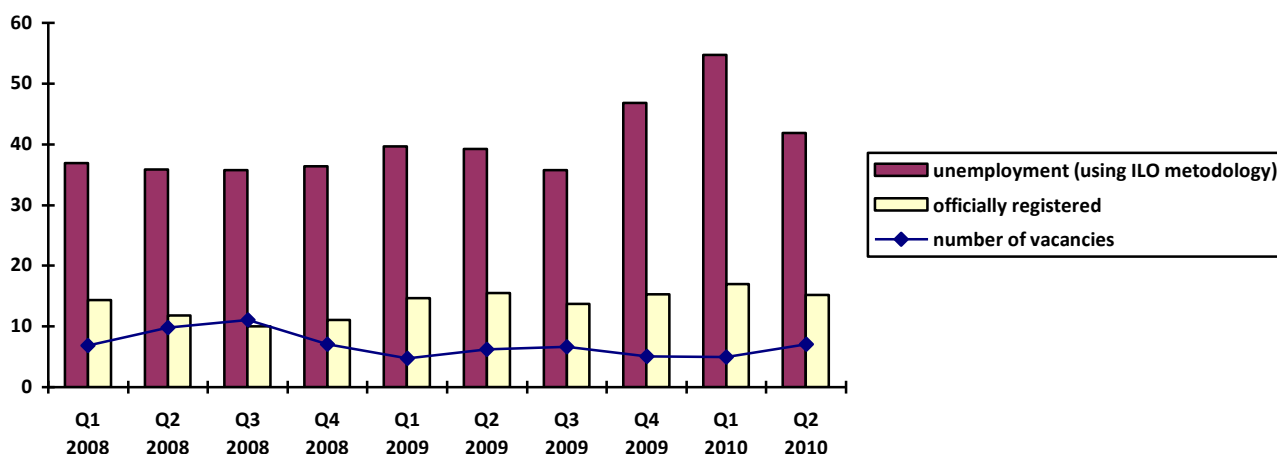
The demographic trend in the region remains unchanged - the birth rate is slightly increasing while the death rate is declining. Nevertheless, migration outflow largely eclipses the positive effect.

Over the first five months of 2010, the crude birth rate rose from 10,6 born per 1000 inhabitants to 10,9. Migration outflow surpassed last year's figures by 4,9% and totaled 1836 individuals.

While 5766 individuals arrived in Murmansk Oblast, 7601 - left the region (in the same period last year figures were 4932 and 6682 respectively).

According to statistics, the number of officially registered unemployed by June 2010 dropped to 13,800 people (or 2,6% of work force) which is less than last year. However, calculations made in accordance with the ILO-method speak of a higher level of unemployment.

Diagram 3.1 Unemployment situation (thousand people)



Standard of living

The monthly per capita salary average in January-June 2010 rose from 20,4 to 22,6 thousand RUB. Meanwhile, the lowering of the population's actual incomes (with inflation rate and mandatory payments taken into account) has stopped. Also the pensions continue to grow.

Diagram 3.2 5 Real income index in 2001-2010

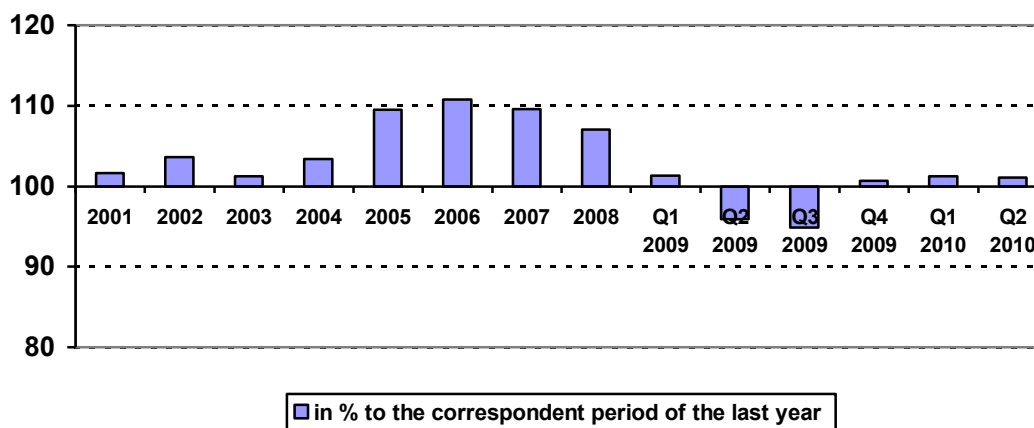
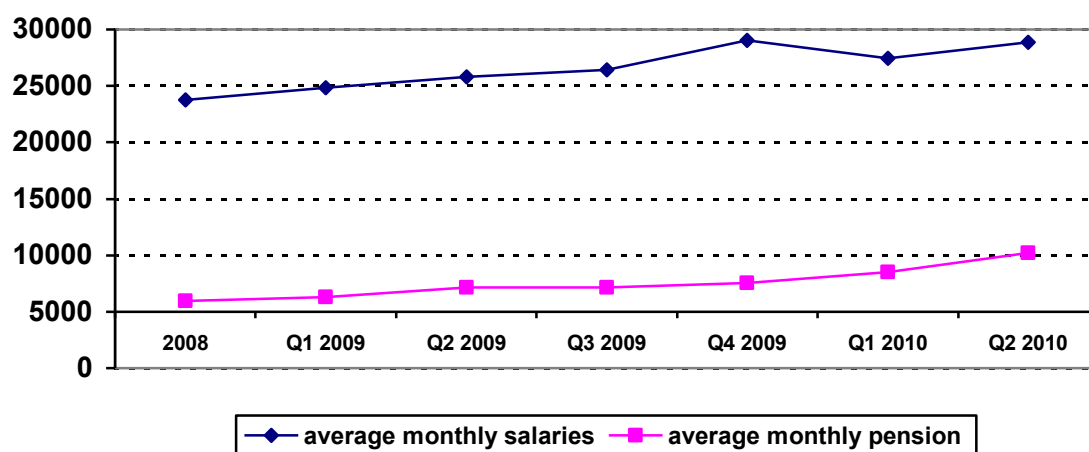


Diagram 3.3 An average salary and pension per person in 2008 - 2010



REFERENCES:

Report is based on the materials of:

- the Federal service of state statistics for Murmansk oblast - murmanskstat.gks.ru
- the Social-economical and sectoral reports, presentations and press-releases of the Murmansk regional Administration – www.gov-murman.ru