

AlphaRM: a positive trend emerges in physical consumption of medicinal products and dietary supplements

[Retail goods consumption: recovery after the recession*](#)

The consumer prices' behavior during the recession is determined by the decline in demand, which slows their growth: the deeper the decline, the lower is the price growth. Devaluation gives the opposite effect: the rise in prices for imported goods, after which the market gradually searches for a new balance. In 2016, in Russia, the primary devaluation effect (2014-2015) was weakened by the drop in market demand and gradually exhausted. As a result, the Russian economy reached consumer inflation of 5.4% (December to December 2015) in 2016, the lowest level in 25 years.

In 2016, the Russians tried to adapt to the effects of the inflationary shock of 2015. The drop in retail sales in 2016 (by 4.6%) turned out to be less pronounced than the drop real incomes (by 5.6%). The difference is small, but it can be indicative of the gradual exhaustion of the "protective" model of consumer behavior that operated during the recession. During the economic crisis, people are shocked by the threat of rising unemployment, inflation and uncertainty in general. When applying the protective mode, families reduce their consumption by more than their loss of income. They switch to protecting their savings.

In 2017 there was a trend towards recovery in consumer demand and a revival in retail markets. According to the Russian Federal Statistics Service, the share of food products, which increased their weight in the consumption structure during the crisis in the first place, continues to decline in 2017, giving way to other goods, on which people saved during the crisis. In May 2017, the turnover of retail trade increased by 0.7% compared with 0.1% in April. It was due to sales of non-food goods, which are growing for three months already, in annual terms (+ 1.8% in April) after the decline that lasted since January 2015. In addition, the rate of the decrease of real disposable money income slowed in May, while the growth rate of wages stays positive, amounting to 2.9% in annual terms in June.

[Pharmacy segment: recovery of the consumer demand](#)

In the pharmacy segment ** there has been a positive trend in physical consumption of both medicinal products and dietary supplements, for the first time in three years. The fact that the sales of dietary supplements as nonessential goods in the first half of 2017 showed a positive increase that outstrips the increase in the sales of medicinal products both in value and in packages, can be an example of the general trend of the Russian retail's recovery from the recession, with the growth of people's purchasing power.

The recovery of demand after the recession involves not only an increase in sales, but also a reorientation of consumption for higher-priced goods, which means the purchase of higher quality goods and goods with a more valuable image component, and the purchase of nonessential goods that are needed for diseases prevention rather than treatment, or for maintaining health and beauty. The last criteria fit the dietary supplements, with their sales growing lately, as well as vitamin/mineral complexes registered as medicinal products that do not have the status of VED. In the first half of 2017, the prices of non-VED products in the pharmacy segment grew by 7.7% compared to the first half of 2016, more than the prices of VED in the same segment, due to strict price regulation restrictions by the State (Table 1).

The dynamics of prices in the state-owned segment, based on the results of the first six months of the year, can be considered only assuming that it is not homogeneous in monthly detail and will be more suitable for accurate analysis only at the end of the year, when all the important bidding for subsidized drug coverage programs (including high-cost classes of diseases) and targeted programs will be completed.

Table 1. Dynamics of the medicinal products average prices

Category	Average price, rubles		Price growth, %
	1 st 6 months of 2016	1 st 6 months of 2017	1 st 6 months of 2017/1 st 6 months of 2016
All VED products	211	216	2.2
RETAIL	135	139	2.8
STATE SEGMENT	401	446	11.3
All Non-VED products	227	246	8.1
RETAIL	218	234	7.7
STATE SEGMENT	460	514	11.6
Pharma market in general	219	230	5,2

Source: AlphaRM

In general, the pharmaceutical market in the 1st 6 months of 2017 g showed an increase in prices by 5.2% compared to the 1st 6 months of 2016. It should be noted that the dynamics are not uniform in monthly detail, both because of public procurement with annual high-value tenders held in different months of the year, and because of the regional specifics of the pharmacy segment, where margins can vary significantly in different regions and are prone to seasonal changes. By the end of the year it will be possible to make more confident conclusions about the pricing trends in 2017.

For more information about the aspects of pricing depending on the market segment and the products belonging to the VED list, see the Appendix 1.

Appendix 1. Pricing dynamics based on price segments in retail, for the 1st 6 months of 2017

VED / Non-VED	Price segment	Average price		Price increase, %
		1 st 6 months of 2016	1 st 6 months of 2017	1 st 6 months of 2017/1 st 6 months of 2016
VED		135	139	2,8
	Less than 50.00	25	25	0,9
	50.01 to 500.00	170	170	0
	500.01 or more	908	921	1,5
Non-VED		218	234	7,7
	Less than 50.00	24	23	-3,1
	50.01 to 500.00	217	224	3,0
	500.01 or more	904	899	-0,5
RETAIL in general		182	191	5,4

Source: AlphaRM

Table 2. Pricing dynamics based on price segments in pharma marked as a whole, for the 1st 6 months of 2017

VED / Non-VED	Price segment	Average price, rubles.		Price increase ,%
		1 st 6 months of 2016	1 st 6 months of 2017	1 st 6 months of 2017/1 st 6 months of 2016
VED		61	159	2.2
	Less than 50.00	646	1 215	-0.5
	50,01 to 500.00	50	76	0.3
	500.01 or more	25	37	-9.5
Non-VED		433	622	8.1
	Less than 50,00	3 682	5 206	-3.1
	50.01 to 500.00	353	474	2.2
	500.01 or more	651	855	-0.6
RETAIL in general		29	37	5.2

Source: AlphaRM

* Based on the Bulletins on Current Trends in the Russian Economy, published on ac.gov.ru: Consumer Price Dynamics: Results of 2016 // Issue # 21

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** Including additional parapharmaceutical products and dietary supplements