RUSSIAN INDUSTRY IN FEBRUARY 2013

S.Tsukhlo

The data of the Gaidar Institute's surveys[1] of industrial enterprises received in February presented a controversial pattern of the state of things in the industry: explicit growth in sales and output along with high redundancy of stocks of finished goods and a definite drop in optimism of forecasts of demand, output and employment. Investment plans finally overcome the traditional halt of the beginning of the year, but attained only the zero point which means that no growth in investments is planned by the industry so far.

The Industrial Optimism Index

The IEP Industrial Optimism Index which fell to the three-year minimum in January 2013 managed to recover in February from the dip of the beginning of the year (*Fig. 1*). The main factor behind improvement was the dynamics of demand which demonstrated – according to assessments of enterprises and the data cleared of the seasonal factor – growth in sales of industrial output.

THE IEP INDUSTRIAL OPTIMISM INDEX, 2005-2013 PERIOD

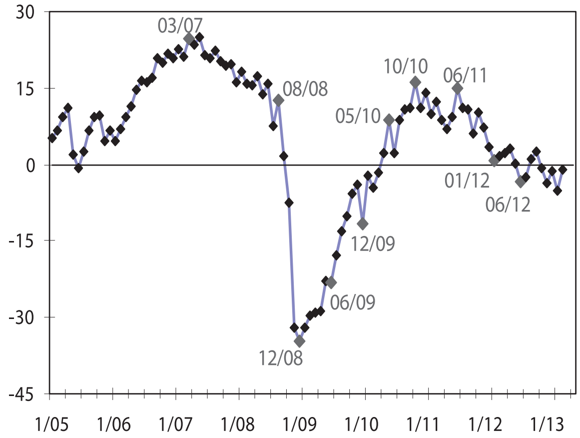

Fig. 1

Demand in Industrial Output

In February 2013, the dynamics of demand underwent principal changes. The initial rate of change in sales improved by 53 points by February and became substantially positive – the record one after the 2008-2009 crisis – after its value was a deeply negative one. Clearing of the seasonal factor showed a sudden change in the index, too (*Fig. 2*). If in the previous months (including January 2013) rates of decrease in sales were relatively stable and amounted on average to –10 points, in February the decline stopped and growth of +5 points was registered which value is the 18-month maximum of the index. The industry registered growth in demand in its output.

CHANGES IN SOLVENT DEMAND CLEARED OF A SEASONAL FACTOR (BALANCE=%GROWTH-%DECREASE)

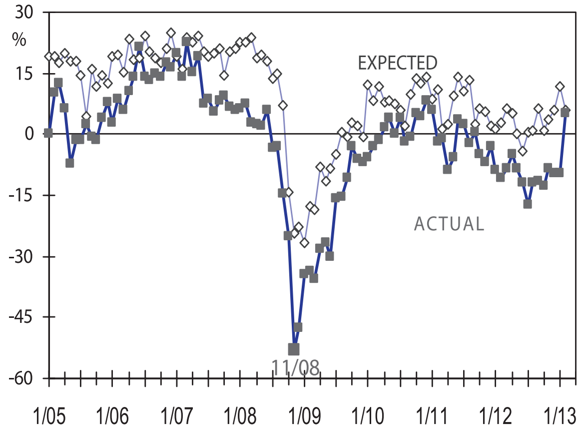

Fig.2

The above factor immediately improved satisfaction (to be precise, stopped it from getting worse) with sales which kept falling during the past nine months and amounted to 41% in January 2013. The latter value became the three-year minimum of the index. At present, the share of normal assessments of demand amounts to 44%. Small growth in satisfaction can sooner be explained by high redundancy of stocks of finished products.

1 Surveys of managers of industrial enterprises are carried out by the Gaidar Institute in accordance with the European harmonized methods on a monthly basis from September 1992 and cover the entire territory of the Russian Federation. The size of the panel includes about 1,100 enterprises with workforce exceeding 15% of workers employed in industry. The panel is shifted towards large enterprises by each sub-industry. The return of queries amounts to 65–70%.

Stocks of Finished Products

In January, the stocks of finished products amounted to the record-high redundancy level and virtually did not change in February (*Fig. 3*). Early this year, 22% of enterprises regarded their warehouse stockpilings to be "above the norm" which value became the tree-year "anti-record" of the index. The above value could be even higher if not for the policy which was carried out deliberately by manufacturers. In the 4th quarter of 2012, 27% of enterprises reported that minimizing of stocks of finished products was one of the measures of their anti-crisis policy.

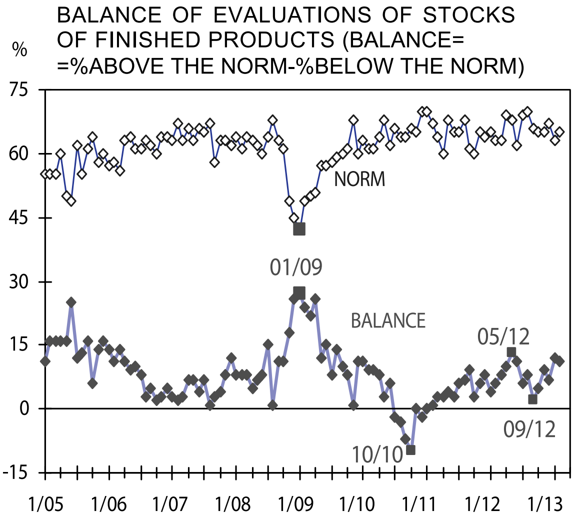

Fig.3

Output

In February, according to the data of surveys the output underwent dramatic positive changes. The initial balance (rate) of that index rose by 70 points and after a sudden fall in January demonstrated explicit growth in production. Clearing of the seasonal factor showed growth at the rate which had not been observed in the past year and a half (*Fig. 4*). However, such dynamics of output could contribute to preservation of the high level of redundancy of stocks of finished products.

On the contrary, the industry's industrial plans showed negative dynamics. With the seasonal factor cleared, they have been declining for two months running and lost 8 points in 2013 after attaining the 16-month maximum in December 2012. In the past few months, enterprises' plans coincided in 74–78% of cases with forecasts of output. That was a high level of harmonization between the expected changes in sales and output. The record-high values (83% and 88%) were received in November and December 2008.

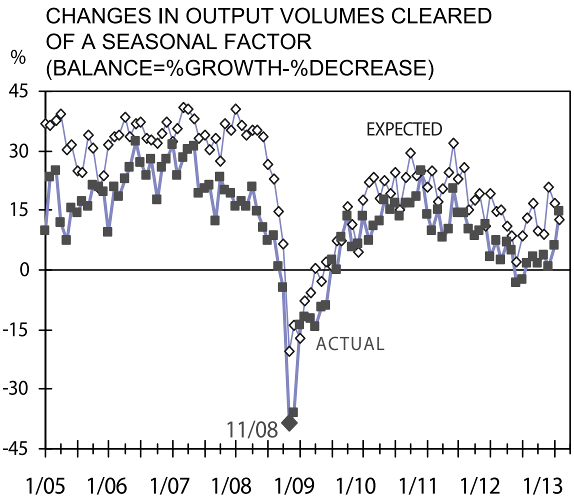

Fig.4

Prices of Enterprises

In January and February 2013, growth rates of enterprises' selling prices were similar to the rates of their change in the first few months of the previous year: the highest growth in January and slowdown in February (*Fig. 5*). However, in 2013 the industry's pricing forecasts are more moderate. If in 2012 they attained the maximum of 24 points in January and February after 19 points in December, early in 2013 the maximum was equal to 19 points and did not differ from the result of December 2012.

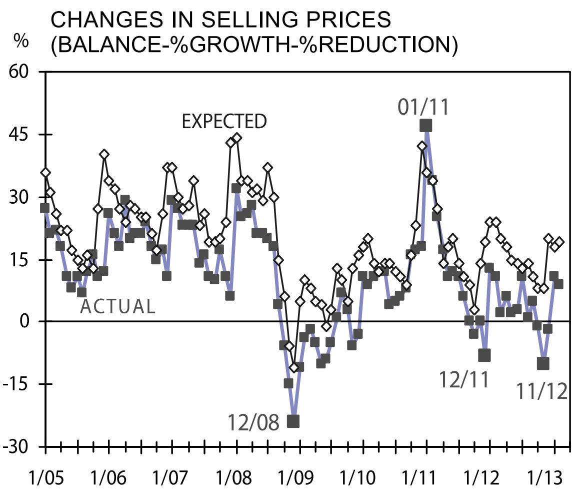

Fig.5

The Actual Dynamics and Lay-Off Plans

In February, the rate of reduction of the number of personnel in the industry considerably slowed down as compared to January, but the negative values of the balance still point to the fact that lay-offs prevail over hiring of personnel (*Fig. 6*). Such a situation (where the number of lay-offs is higher than that of the recruited) has been registered in the Russian industry since the second half of 2012. It seems that the industry failed to overcome that negative trend in the beginning of 2013, though in the first few months of the previous post-crisis years hiring of workers did take place.

Forecasts of change in employment do not bring optimism, either. In January 2012, they managed to rise to the zero balance (that is, growth expectations were equal to the expectations of reduction of the number of the employed) though earlier the positive balance of January increased in February, too. This year, the February balance of expectations got worse by 5 points and demonstrated prevalence of forecasts of reduction of the employment in the industry.

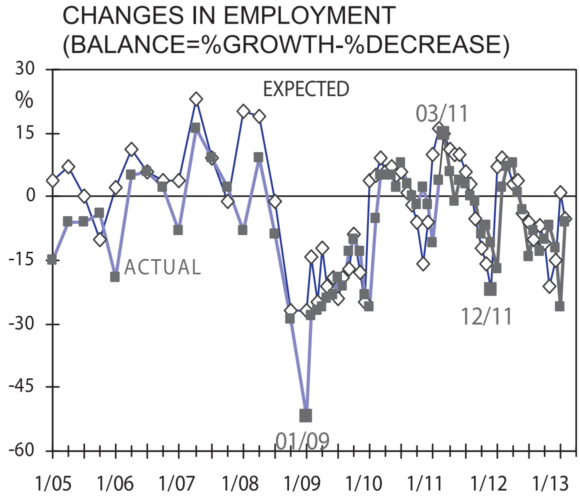

Fig.6

Enterprises' Investment Plans

In February, the industry's investment plans attained the zero point after staying in the negative zone during the past three months. So, the traditional investment break typical of the beginning of the year came to an end. However, its initial and ultimate levels do not appear optimistic. Only 4% of enterprises in the Russian industry assesses their capacities as insufficient ones due to the expected changes in demand which factor is definitely not an impetus for investments in expansion of capacities, while 66% of enterprises regard their current labor efficiency as normal which factor discourages investments in modernization of the existing capacities.

Lending to the Industry

In February 2013, the terms of lending to the Russian industry did not undergo any changes. The aggregate availability of loans amounts to 69% and is equal to the average value of the index in the past 16 months. The average minimum rate offered by banks on ruble loans remained at the January level of 12.9%. The availability of loans is considered normal (according to evaluations of borrower-enterprises!) at the current rate of 12.3% per annum. Late in 2011, the level of such "normal" rate fell to 11%.