

## RUSSIAN INDUSTRY IN MARCH 2013

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The business opinion surveys carried out by the Gaidar Institute in March 2013<sup>1</sup> pointed to a worsening situation for Russian industrial enterprises. As a result, industrial enterprises began to lose confidence in the correctness of their production and marketing policies, and so were trying to push their output to match demand more closely. Their sales forecasts and output plans gave no reasons to expect that Russian industry might experience a rebound in growth – even if enterprises refrained from rising prices for their products.

### Industrial Optimism Index

Having climbed to zero level in February, the IEP's Industrial Optimism Index returned to the negative zone in March. Thus, for six months in a row, this index had been failing to enter the positive zone, standing on the average at -2.7 points (Fig. 1).

The Industry Expectations Index does not inspire much optimism, either (Fig. 2)

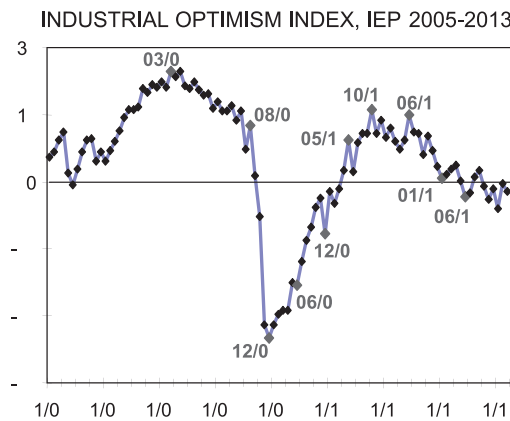


Fig. 1



Fig. 2

### Demand for Industrial Products

Having climbed in February, the demand for industrial products then dropped in March, as implied by both the initial data and the data cleared of seasonality (Fig. 3). According to the data cleared of seasonality, the demand for industrial products began to dwindle once again, although at a lower rate than in late 2012. On the whole, Q1 2013 was characterized by a very unstable demand dynamics: having fallen at an extremely high rate in January, the demand for industrial products demonstrated negligible growth in February and a small deceleration in March. Enterprises highly appreciated the positive changes in the movement of sales in March – the

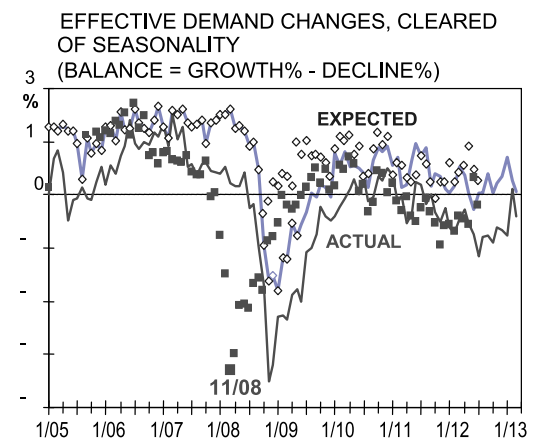


Fig. 3

1 Monthly business opinion surveys of directors of industrial enterprises have been conducted by the Gaidar Institute on the basis of European harmonized methodology since September 1992 across the entire territory of the Russian Federation. The panel consists of approximately 1,100 enterprises employing more than 15% of the total number of industrial employees. The panel is skewed towards big enterprises in each selected subsector. Of the questionnaires posted, 65 to 70% were returned.

balance of estimates immediately jumped up 15 points and remained impressively high in March, losing only 2 points over the course of that month.

Having been buoyed up by the traditional January wave of optimism, demand forecasts – quite untraditionally – began to worsen. By the beginning of March, they had dropped by 13 points with regard to initial data and by 10 points with regard to data cleared of seasonality. As a result, at present the latter indicator stands at zero, which means that no rise in sales can be expected in the next few months.

**Stocks of Finished Products**

In March, the balance of estimates of stocks of finished products remained at the highest (worst) level since June 2009. At first glance, this indicator underwent no major changes over the course of past month. However, the dynamics of estimates per se spoke of increasing pessimism on the part of enterprises (*Fig. 4*).

In March, the proportion of responses ‘above the norm’ continued to grow and reached 26% – its record high since May 2009. The proportion of responses ‘below the norm’ also increased, although remaining within its bounds observed since 2001. At the same time, the proportion of responses ‘within the norm’ dropped by 12 points, to its record low since May 2009.

**Output**

When cleared of seasonality, the IEP surveys’ data on the dynamics of production indicate that in March 2013 the growth rate of industrial production dropped to zero (*Fig. 5*). As a result, this indicator returned to its level observed in the second half of 2012 (after having surpassed it during the first two months of 2013) – in spite of Rosstat’s extremely pessimistic data). The latest reports of Russia’s Federal Statistics Agency pointed to an acceleration of the current slump in industrial production: having fallen in January 2013 by 0.8% on January 2012, in February 2013 it dropped by 2.1% on February 2012.

Having hit their seventeen-month high in December 2012, the output plans of enterprises were steadily declining throughout Q1 2013. It should be noted, however, that such a behavior of output plans displays, on the average, a 76% correspondence with producers’ forecasts of demand.

**Producer Prices**

In March, the growth rate of producer selling prices dropped by 10 points to a virtual standstill. A similar situation, in fact, had been observed in early 2012. However, at that time, a modest actual growth in producer prices had been accompanied by forecasts of their substantial growth in the nearest future. In 2013, the situation became different: already in March, the price forecasts of enterprises dropped by 18 points (thus losing more than they had done over the entire course of 2012), and so fell to their thirty-nine-month low (*Fig. 6*). It seems that enterprises are planning to be even more cautious in their pricing policies. According to the IEP’s

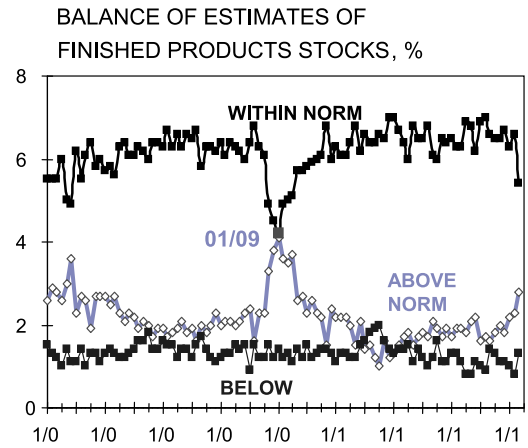


Fig. 4

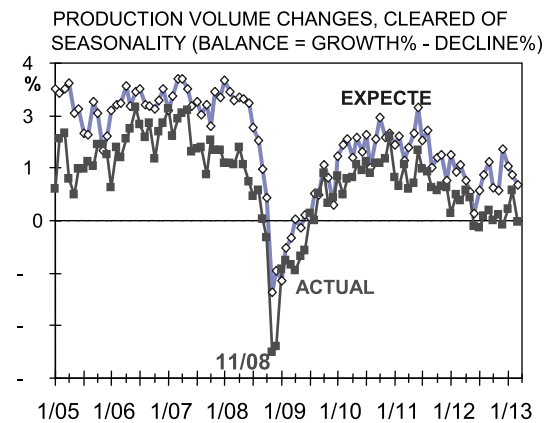


Fig. 5

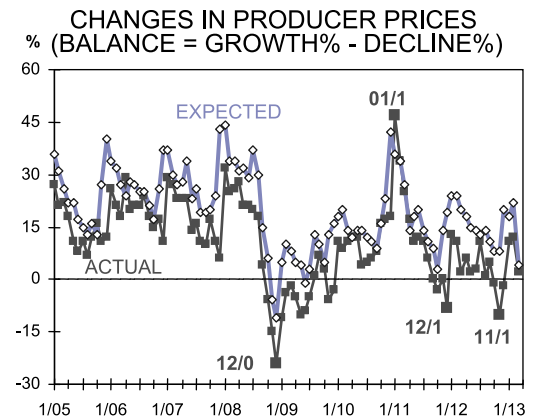


Fig. 6

January 2013 survey, a ‘cautious pricing policy’ ranks first in the rating of the anti-crisis measures being actually implemented by Russian industrial enterprises.

**Actual and Planned Job Cuts**

In March, industry saw a continuation of dismissals of workforce (*Fig. 7*). Having most drastically cut their workforce in January, enterprises failed (or rather did not dare) to switchover to hiring new workers. At the time, the intensity of dismissals considerably decreased. Having climbed to 26 points (its worse value since March 2009 when the first signs of departure from the current crisis appeared), the intensity (or balance) of dismissals dropped to only 4 points in February and March. That is very positive sign indeed – at least at first glance.

The same is true of the recruitment plans of enterprises. In Q1 2013, they stabilized at a zero level, when the proportion of respondents stating recruitment absolutely equaled the proportion of respondents stating dismissals of workforce, while an absolute majority of respondents wanted to introduce no changes in the number of their personnel. ●

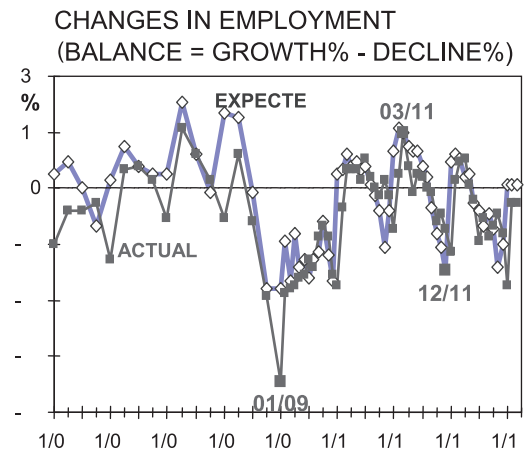


Fig. 7