RUSSIAN INDUSTRY IN APRIL 2013

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The business surveys carried out by the Gaidar Institute in April 2013[1] pointed to a worsening situation for Russian industrial enterprises. The ongoing drop in demand increased the share of excess inventory and forced the surveyed enterprises to refrain from price rising both in April and in the months to come. The enterprises saw the major obstacle to output growth not in the high interest rates on credits, but in the low demand for their products and in the uncertainty of the current economic situation.

Demand for Industrial Products

Judging from the surveys, the demand for industrial products continued to dwindle in April, as implied by both the initial data and the data cleared of seasonality. In April, the initial data pointed to a negative sales balance – the first negative sales balance since the beginning of the post-crisis recovery: in 2010–2012, this indicator had always been positive, periodically climbing to +11 points. In April, it amounted to -6 points with regard to the initial data, and to -14 with regard to the data cleared of seasonality (*Fig. 1*). A record post-crisis low had been registered by the surveyed enterprises in July 2012. When cleared of seasonality, it had amounted to -17 points.

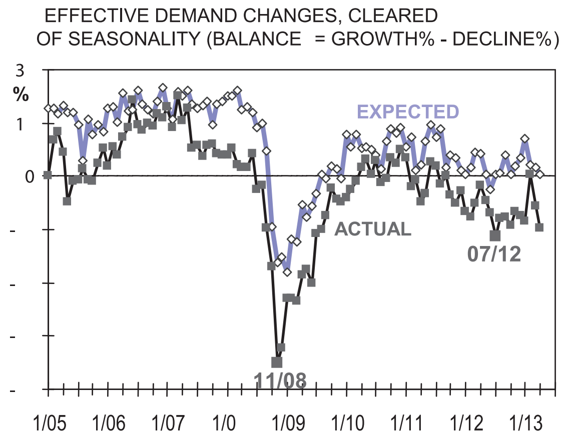

Fig. 1

Sales forecasts had been on the decline for third month in a row. With regard to the data cleared of seasonality, the April 2013 sales forecasts were worse than the April sales forecasts in 2010–2012, while with regard to the initial data they were close to slipping into the minus range. Expectations of a revival in demand were at an all-time low.

Stocks of Finished Products

The surveyed enterprises' estimates of their stocks of finished products confirmed the weakness of the current demand and the enterprises' uncertainty that it may actually become more robust in the next few months. In March–April 2013, the proportion of responses 'above the norm' had grown to its record high since September 2009, when industry had just got rid of its crisis-time excess inventory and the proportion of responses 'above the norm' hovered around 35 to 40%. In April, the proportion of such responses amounted to 25% (*Fig. 2*).

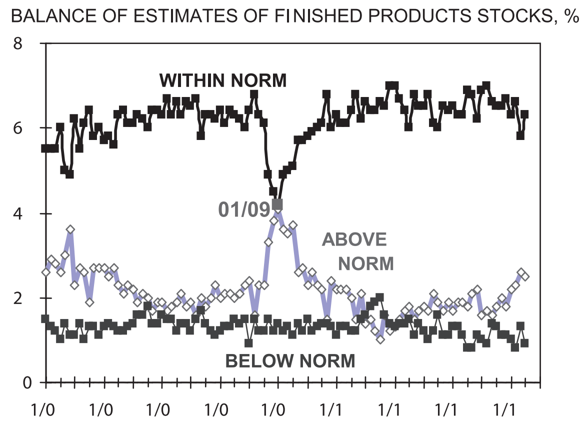

Fig. 2

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.

Output

The existing data on the volume of industrial output in April 2013 have all chances to once again cause discord within the RF Government's 'economic bloc' – the latter being accustomed to deal only with a very modest range of statistical indicators adopted by Russia's statistical agencies. For example, such a discord erupted in March, when the RF Ministry of Economic Development publicly accused *Rosstat* [RF Federal State Statistics Service] of having used improper methods for cleaning initial data of seasonality. It should be noted that, when the industrial output index changes only insignificantly, the final result becomes hostage to the formal methods and so fails to adequately reflect the actual processes taking place in industry. At present is has become evident that the data on a growth or decline in output, when taken alone, no longer suffice for adequately describing and understanding these processes.

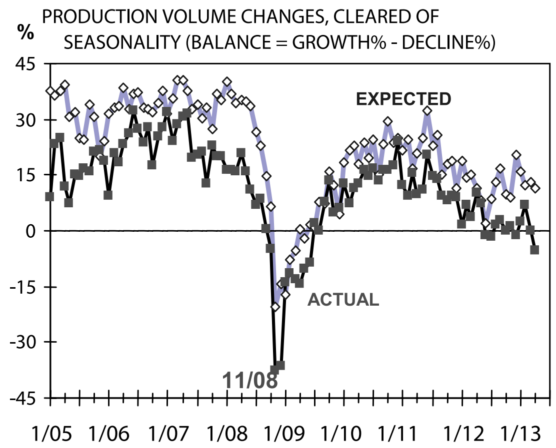

Fig. 3

In April, Russian industry showed a growth rate extremely low for that month: the balance of changes in output (the pace of output growth) declined to +6 points, although in the previous post-crisis years it had never dropped below +20 points, and even in the crisis year 2009 the balance of changes in output had amounted to +9 points. When the first April 2013 data were cleared of seasonality, the balance declined to -5 points, which represented the worst result since June 2009 when Russia's industry began to exit the acute phase of the latest crisis (*Fig. 3*).

Having reached their traditional seasonal peak in January–February, the output plans of enterprises began their traditional decline. By April, they had lost 21 points with regard to the initial data and 9 points with regard to the data cleared of seasonality. As a result, the plans of the past few months stabilized at the level of +12 points, which corresponds to the level of the same months of 2012. At the same time, their correspondence with producers' demand forecasts for 2013 increased, rising to 78% (vs. 69% last year). Such a high result had been rarely recorded in the Gaidar Institute's surveys (as a rule, during the periods of turmoil in Russian industry), while a higher degree of 'match' between output plans and demand forecasts had been achieved only in November–December 2008. Thus, at present, the situation in Russia's industry is definitely complicated (pre-crisis?), and industrial enterprises are trying to alleviate the 'looming' crisis by composing their plans in such a way as to minimize their excess inventory.

Producer Prices

The pricing policy of industrial enterprises indicates that they are faced with serious sale problems. Having traditionally peaked at the beginning of 2013, in March–April the growth rate of producer selling prices dropped by 10 points to a virtual standstill (*Fig. 4*). 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: the balance of pricing plans dropped from +20 points in January–February to +4 in April.

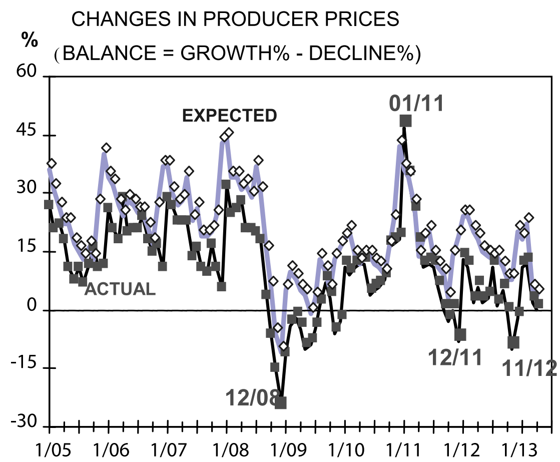

Fig. 4

Actual and Planned Job Cuts

In February–April, industry saw a continuation of dismissals of workforce. Although the intensity of this process was lower than in January, the proportion of respondent stating recruitment never exceeded the proportion of respondents stating dismissals of workforce. In other words, while in 2010–2012 the number of workers in industry had demonstrated a small increase at the end of Q1 and the beginning of Q2, this did not happen in 2013. We can even say that, in 2013, the industrial worker's readiness to quit matches the employer's readiness to dismiss workforce. Workers are quitting their jobs because of the insufficient wages offered in industry, lured by the rising wages in other sectors of the economy. Their employers are not trying to stop them from quitting, because the ongoing negative changes in demand and production clearly necessitate further job cuts in industry. Recent experience indicates that, if an acute crisis comes, the authorities at all levels will not permit the employers to resort to massive dismissals of workforce. As a result, the proportion of respondents stating that their workforce was 'above the norm' practically equaled the proportion of respondents stating that their workforce was 'below the norm', while the proportion of respondents stating that their workforce was 'within the norm' was absolutely dominant (hovering around 75 to 80%).

The Investment Plans of Enterprises

Having briefly entered the positive zone in March after a very long seasonal pause at the end of 2012 and the beginning of 2013, the investment plans of enterprises failed to remain in a positive trend in April and once again returned to zero, with 50% of enterprises planning to increase investment and another 50% planning to reduce it (*Fig. 5*). A downward adjustment of the investment trend took place in machine-building (to -5 points from +7 points in March), the timber industry (to -12 points from -3 in March), the chemical industry (to +7 points from +14 points in March), and light industry (to -21points from -6 points in March). Positive changes in investment plans were registered in the food industry (+13 points in April vs. -30 points in March).

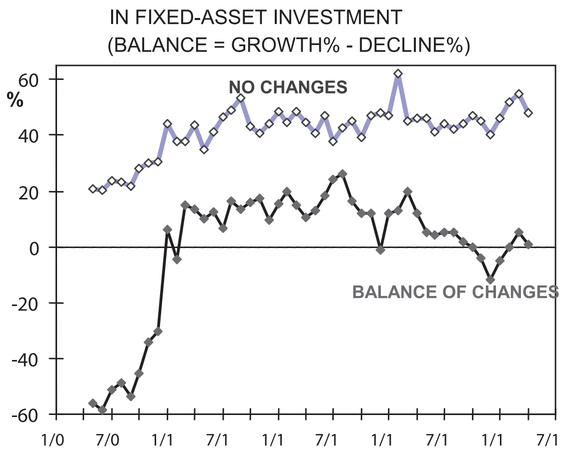

Fig. 5

Crediting of Industry

In April 2013, the aggregate ('above the norm' + 'within the norm') credit availability remained practically unchanged (*Fig. 6*). As a result, this indicator had been hovering around 67 to 72% for twenty-second month in a row (since July 2011). Having climbed to 13% (its thirty-month high) in February 2013, the mean minimum rate on ruble-denominated credits offered by banks to enterprises dropped to 12.9% per annum, thus having shed 0.2 p.p. over the course of two months. In April, the lowest rates we are offered to ferrous metallurgy (11.1%) and the chemical industry (11.2%); the highest rates – to light industry (13.4%) and the construction industry (14.5%).

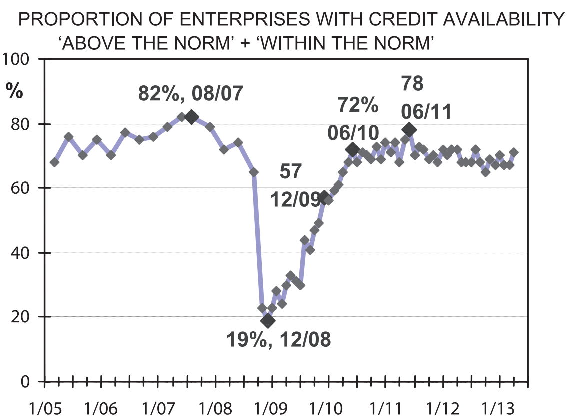

Fig. 6