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## Russian Industry in September 2012

According to the outputs of the Gaidar Institute's surveys<sup>1</sup>, in September a lack of principal (the more so, crisis) changes in the actual dynamics of the demand, output, prices and employment takes place in industry together with growth in optimism of forecasts. In the 4<sup>th</sup> quarter, enterprises are prepared to pull Russian industry out of stagnation.

### Industrial Optimism Index

In September, the main drivers of growth in optimism in industry (Fig. 1) were evaluations of stocks of finished products and output plans.



Fig. 1. THE IEP INDUSTRIAL OPTIMISM INDEX, 2005-2012

All the components of the Industry Forecasts Index (*dynamics of the demand, output, prices and employment*) (Fig. 2) ensured growth in the composite index to the eight-month maximum.

<sup>1</sup> 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%.



**Fig. 2. INDUSTRY FORECASTS INDEX, 2005-2012**

### ***Demand on industrial products***

In September, the actual dynamics of the demand did not undergo any changes either in the input data or the data cleared of the seasonal factor. According to the estimates of enterprises, sales keep decreasing, but not at such a high rate as in the beginning of the quarter. Due to a lack of positive changes in the dynamics of the demand, satisfaction with its volumes fell by 4 points; as a result only 50% of industrial enterprises think that their sales volumes are “normal”. The best result of 2012 was registered in April and it amounted to 57%.

The input data on the forecasts of the demand (*Fig. 3*) has shown for four months running a surprising stability of the balance at the zero level: growth expectations are counterbalanced by recession forecasts. So, from the beginning of summer the industry cannot make up its mind about the direction of the change in the main economic indicator and remains in the wait and see state.



**Fig. 3. CHANGES IN THE SOLVENT DEMAND CLEARED OF SEASONAL FACTOR (BALANCE=%GROWTH-%DECREASE)**

## Stocks of Finished Products

In September, the balance of stocks of finished products (*Fig. 4*) kept declining and fell to the zero level; it is to be noted that the above trend emerged in June. As a result, in the past four months the above index lost 13 points and is about to fall into the negative area where “below the norm” estimates dominate over “above the norm” ones. Such a situation took place late in 2010 when enterprises minimized their inventory stocks due to a loss of confidence in early revival of industrial growth. However, the same factor creates an additional impetus to the industry in case hopes for revival of growth arise.



**Fig. 4. BALANCE OF EVALUATIONS OF STOCKS OF FINISHED PRODUCTS  
(BALANCE=%ABOVE THE NORM-%BELOW THE NORM)**

## The Output

According to the estimates of enterprises and after clearing of the data of the seasonal factor (*Fig. 5*), in September growth rates of production were at the zero level again. As a result, for four months running surveys have shown both stagnation in the Russian industry and the worst period in its history from the mid-2009 if the industrial production index -- which is the only index of Rosstat available to most consumers -- is used. Surveys permit to evaluate the state and sentiments in the Russian industry with utilization of a larger number of indices which are partially unavailable to the Rosstat. As regards industrial production, it concerns plans to change output volumes in the forthcoming months (that is, in September 2012 in respect of plans for the 4<sup>th</sup> quarter of 2012). Throughout the past quarter, the above index showed industrial enterprises' growing intention to break away from stagnation and switch over to consistent output growth. As a result, in June-September the balance of expectations rose by 17 points and amounted to the 12-month maximum level. In the 4<sup>th</sup> quarter, industry is ready to switch over from zero growth rates to positive dynamics of the output.

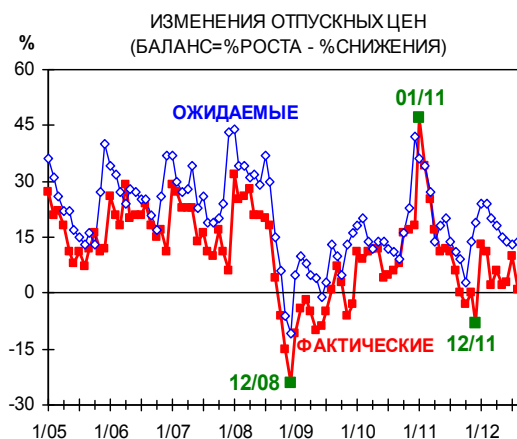


**Fig. 5. CHANGES IN OUTPUT VOLUMES CLEARED OF SEASONAL FACTOR (BALANCE=%GROWTH-%DECREASE)**

### Prices of enterprises

Moderate growth in producer prices may become a factor behind revival of the demand and output (*Fig. 6*). After a surge in July, it returned to the minimum rates which were registered in March-June, while a share of reports about selling prices remaining unchanged amounted to 84% which is the absolute record in the entire post-default period from 1998. In addition to the above, in the 3<sup>rd</sup> quarter of 2012 enterprises demonstrated slower growth rates of their prices as compared to growth in expenditures: a share of reports about growth rates of production costs being faster than those of prices amounted to 25%. The above value has become the maximum one in the past ten quarters, that is, from the 1<sup>st</sup> quarter of 2010 the industry' cost-effectiveness has never dropped to such a low level as in the past quarter. The absolute maximum loss of cost-effectiveness in industry was registered on the basis of surveys in the 1<sup>st</sup> quarter of 2009 when growth in prices lagged behind growth in expenditures with 49% of enterprises.

Pricing plans show that the industry intends to use that factor for revival of sales in future, as well. In September, the balance of pricing plans decreased by another 4 points. It is to be noted that at the end of the first half-year the industry intended to preserve growth rates of prices at the same level, rather than increase them.



EXPECTED ACTUAL

Fig. 6. CHANGES IN SELLING PRICES (BALANCE-%GROWTH-%REDUCTION)

**Actual dynamics and lay-off plans**

In September, the number of the employed in industry kept decreasing (*Fig. 7*). According to surveys, growth rates of reduction of the number of the employed rose by 3 points as compared to August and, thus, point to the fact that large-scale lay-offs in industry continued throughout the 3<sup>rd</sup> quarter of 2012. However, such a situation was forecasted by enterprises. Plans to change the number of workers in the past quarter were the worst ones in 2012. The initial balance was within the range of -10...-8 points. However, formal methods of clearing of the seasonal factor changed the dynamics of employment forecasts: in September they showed an improvement of 5 points with the negative value of the balance preserved. The latter means that the number of workers keep decreasing, but at a slower rate than in June-August when the 3-year maximum was registered (that is, the highest rate of lay-offs).



Fig. 7. CHANGES IN EMPLOYMENT (BALANCE=%GROWTH DECREASE)