RUSSIA'S INDUSTRY IN MAY 2013

S.Tsukhlo

First data of Gaidar Institute's business surveys on the situation in the Russian production sector in May 2013 show that the situation has been deteriorating in the sector. Enterprises had to further slow down their output, lower prices, reduce the number of employees and be very careful about their investment plans in response to further drop in sales and growth in finished product surplus stock.

Industrial output demand

In May, no serious changes were seen in the dynamics of product demand. Both source and deseasoned data showed further downtrend in product sales: source data showed a pace of -6 points, whereas deseasoned data showed a pace -10 points (*Fig. 1*). As a result, reports on growth in demand prevailed in the industrial sector in February thru March alone, which, however, ceased to be the case after formal deseasoning procedures were applied.

Demand forecasts in May were much more optimistic: source data improved by 8 points, whereas deseasoned data by 6 points. Such a drastic revision of sales forecasts in May took place only once in 2011.

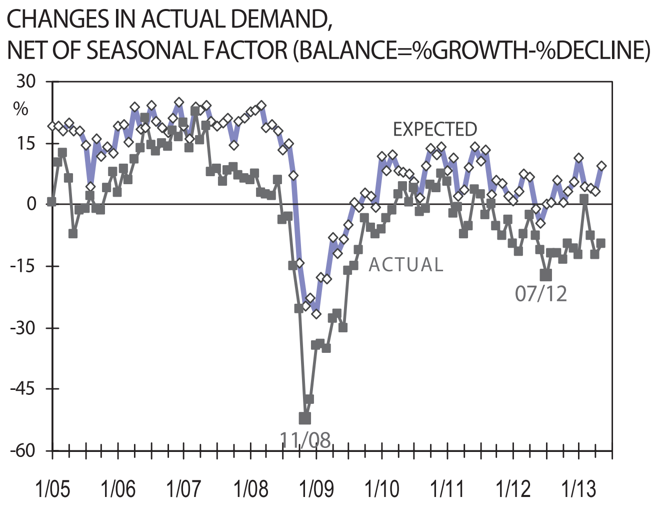

Fig. 1

Finished goods stock

Evaluations of finished goods stock in the industrial sector keep signaling about sales problems and uncertainty about any real possibility to revive the demand. 'Above normal' answers reached maximum over the last 45 months, 'below normal' answers lessened, and 'normal' answers kept the lead (*Fig. 2*). However, the later have steadily been prevailing in Russia's industrial sector over the last 13 years and more (since March 2000), thereby giving evidence of a successful stock management policy. They kept the lead over 'above normal' answers in the industrial sector even in January 2009 (at the height of the recent economic crisis).

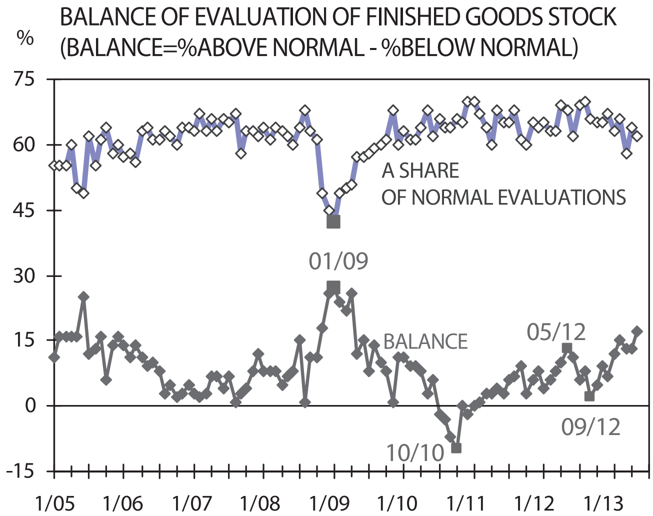

Fig. 2

Output

First data on output dynamics in May look very pessimistic. The initial balance of (growth-decline) answers which is interpreted as rate of change, dropped by 7 points at once. No such a drastic decline (in May) in this indicator have been registered to date. Deseasoning showed further decline, from -7 to -16 points, according to IET's surveys (*Fig. 3*). At first glance, the serious changes can be explained by the fact that some holidays were shifted from January to May. As a result, we saw another month being difficult for interpretation of statistic data and a reason for burst in discussions after official data on industrial production in May were published.

Output plans improved in May following demand forecasts, but in a lesser degree. As a result, a share of enterprises whose output plans fall behind sales forecasts increased up to 12% against the previous periods which showed just 6–7% of such enterprises. It turns out that the industrial sector is not sure about implementation of its own forecasts which were much more optimistic in May. After deseasoning, output plans of May have been remaining within a very narrow corridor of +12..+16 points since the beginning of 2013. It should be noted that last year this indicator decreased from +19 to +7 points for the first time over the previous five-year period.

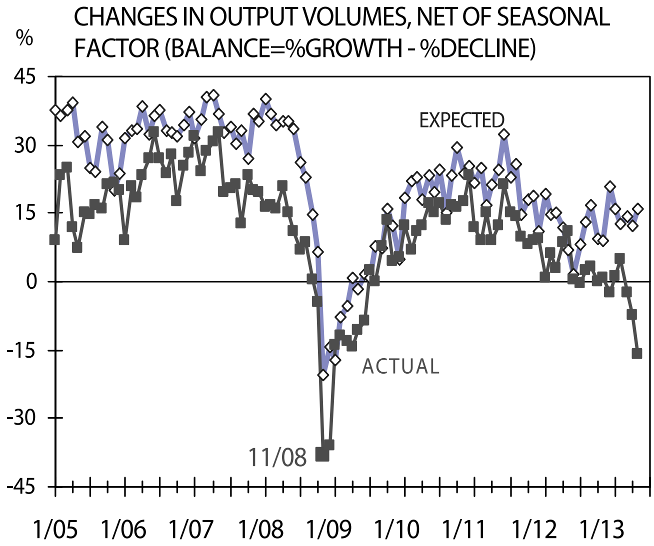

Fig. 3

Prices at enterprises

In May, price policy of enterprises showed new attempts in the industrial sector to revive a weak demand for their products. The balance of actual price changes (growth rate) lost another 5 points to become negative – the industrial sector shifted to absolute price lowering (*Fig. 4*). Such a price movement in May was very unusual, and a similar situation was registered only in 2009, when enterprises had to make adjustments to a faulty strategy of rapid recovery from the crisis of 2008–2009. In 2011 thru 2012, absolute decline in wholesale factory prices was registered at year-end. Furthermore, man-made (announced growth in the UST (uniform social tax) rate) and natural factors (drought) in 2010 resulted in abnormal price growth as early as year-end and upsurge in prices in January 2011. Prices have been continuing to go up only in food industry and construction materials industry over the last few months, whereas in other sectors price growth has been stopped or begun to fall.

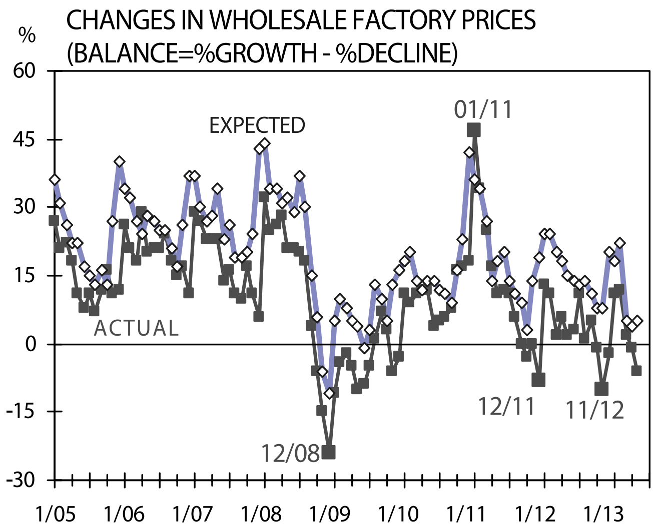

Fig. 4

Forecasts of price movements in March thru April remain record low as to any possible price growth for months to come. It is the fuel-producing industry, construction industry and nonferrous metallurgy that might see a substantial growth in prices, whereas other industries show very moderate price growth plans. Moreover, ferrous metallurgy even tends to lower prices.

Layoff actual dynamics and plans

Reductions in headcount continued in the Russia's industrial sector in May, even more intensively. The layoff rate jumped to 13 points to reach -19 balance points during the month (*Fig. 5*). The industrial sector haven't seen such intensity in layoffs since the crisis of 2008–2009. Moreover, even non-crisis layoffs in January seldom reached such values. Today, none of the industries performs staff recruitment, and most inten-

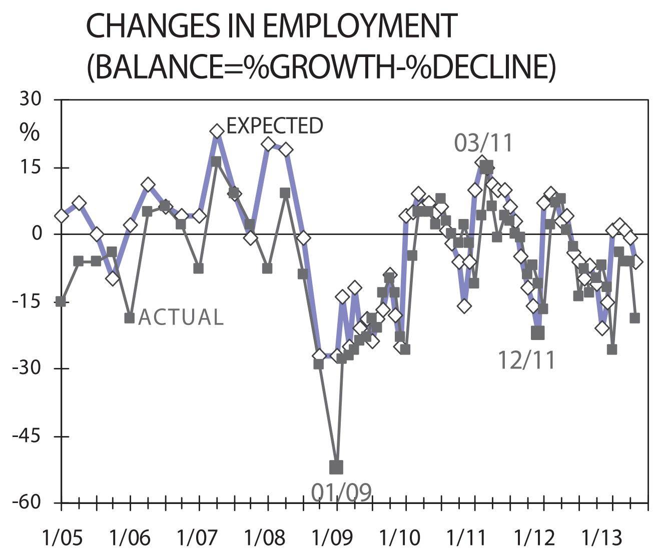

Fig. 5

sive layoffs have been reported in the machine building industry, consumer goods industry, chemical and petrochemical industries.

Lending to industrial sector

Today, 72% industrial enterprises are satisfied with general lending terms (*Fig. 6*), this value being near the ceiling of the corridor within which the indicator has been remaining for almost two years. Ferrous metallurgy (86% of enterprises, at a rate of 11%), chemical industry (83% of enterprises, at a rate of 11%) and food industry (74% of enterprises, at a rate of 13.2%) were most satisfied with availability of loans in April thru May. It was the consumer goods industry (as always) that is facing most problems concerning availability of loans, where 49% enterprises are satisfied with availability of loans. Banks offer an average minimal interest rate of 13.4% p.a. (in rubles) to enterprises in this industry.

A SHARE OF ENTERPRISES WITH
"ABOVE NORMAL" + "NORMAL" AVAILABILITY OF LOANS

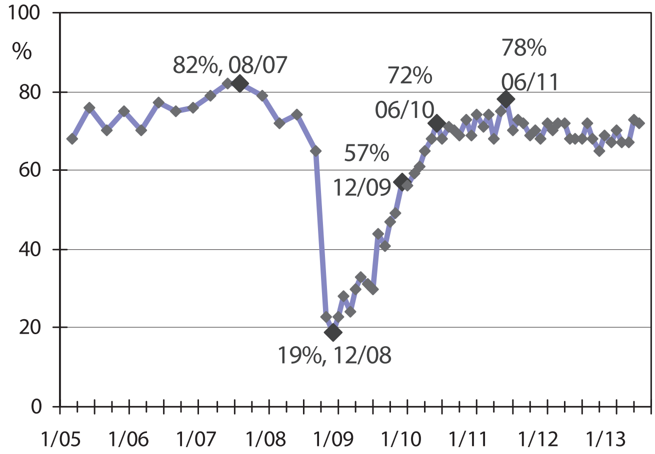

Fig. 6