

## RUSSIA'S FOREIGN TRADE IN JULY 2013

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*The data obtained by Gaidar Institute's business surveys show that anticipations concerning consumer growth in May, which encouraged enterprises to increase their output, were not borne out, and the June growth in output against weakening demand became a problem for the Russian industrial sector, having triggered drastic growth in the level of dissatisfaction with sales and excess stocks of finished goods and made enterprises to revise demand forecasts, output and employment plans in favor of a negative scenario in June–August. Actual reduction in factory gate prices and intention to cut off investments give a finishing touch to the unpleasant picture of the situation in the industrial sector.*

### Industrial products demand

Very optimistic May demand forecasts failed in June. Neither on source nor deseasoned data did sales dynamics manage to overcome an adverse trend which has been prevailing over the last few months. Therefore, the demand slowed down within a range of -13..-11 points throughout the entire Q2 2013 (Fig. 1). This fact and, most importantly, a negative shock from the failed May forecasts governed dynamics and evaluation of other major indicators.

First, actual dynamics of the demand in June was disappointing for enterprises. Disappointment with sales of manufactured products increased by 8 points and almost reached the post-crisis anti-record which was registered in January 2013.

Second, the May optimism declined. Though demand forecasts for July-August 2013 dropped 8 points on source data and 3 points on deseasoned data, they remained positive, i.e. the industrial sector has higher hopes for growth rather than fall in sales.

Third, in June, the balance of evaluations of finished goods stock deteriorated by 10 points at once.

### Finished goods stock

The balance of evaluations of finished goods stock deteriorated in response to a growth of 33% in 'above normal' answers and a decline of 6% in 'below normal' answers (Fig. 2). Therefore, the balance increased to +27 points and reached the level registered on December 2008 and January 2009, i.e. at the height of the recent crisis. Today the situation is being far from crisis in terms of how we viewed it at that time. However, there are certain developments which inspire concern. For instance, the share of 'below normal' answers dropped to 6% in stock evaluation, having reached its historical maximum value (for the entire period of 1993 thru 2013!). Even late in 2008 – early in 2009 the share of such evaluations stood at 12%. In other words, it was inadequate finished goods stock that

Changes in effective demand, net of seasonal factor  
(Balance=%growth-%decline)

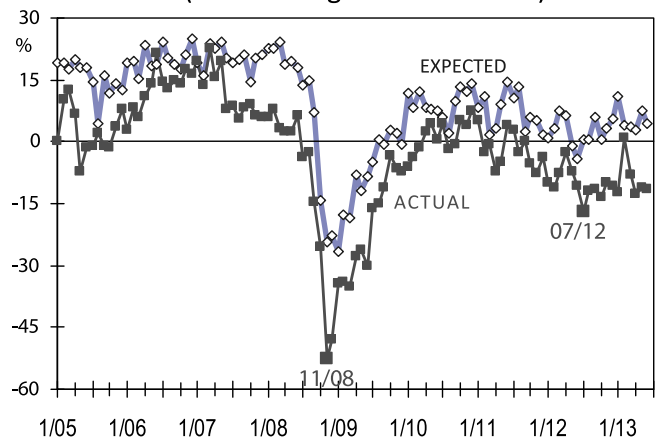


Fig. 1

Balance of evaluation of finished goods stock  
(Balance=%above normal - %below normal)

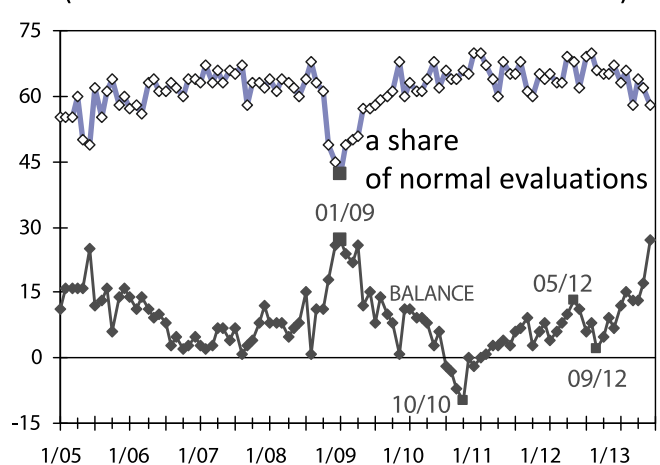


Fig. 2

served as additional stimulus for 12% of enterprises to increase their output at that time. Today, this stimulus is very low in the Russian industrial production sector. Furthermore, one third of industrial enterprises are likely to be ready to slow down their output due to excess stock. Economic authorities seem to realize (better say, they feel, because, official inventory statistics is useful) that, as they don't mention, like they did before, finished goods stock as potential economic growth driver.

**Output**

In June 2013, the industrial production sector demonstrated growth in production according to source and deseasoned data. The growth was caused due to enterprises' May plans. This is why the official industrial production statistics in June may make Rosstat (Federal State Statistics Service of Russia) data users happy, as it would report at least a small growth in output. Furthermore, in June industrial enterprises were facing a problem of increased production against weakening demand. Given the situation, industrial enterprises made negative adjustment to their output plans for July-August in order to avoid risks. Plans balance decreased by 18 points according to source data and 10 points by deseasoned data (Fig. 3). The industrial production sector hasn't seen such a drastic revision of such plans over the last 21 months. Changes in production plans became the fourth consequence of substantial disagreement between demand and output actual dynamics in June 2013.

**Prices at enterprises**

An unprecedented (for June) fall of wholesale factory prices became another consequence of the disagreement between demand and output actual dynamics in June as well as growth in excess stock. The balance lost 8 points and dropped to -11 points, i.e. in June the industrial production sector saw an absolute fall its prices (Fig. 4). Such an intensive (massive) price fall was recorded only twice in December in the period between 2010 and 2013. In June, prices are expected to grow only in forest, food, and consumer goods industries, as well as construction industry.

Plans to change prices, which saw a rise of 5 points in May in anticipation of July growth in tariffs, lost 2 points in June. Today, they are close to the 2010–2013 maximum values which were registered in March-April 2013 and October 2011. Attempts to promote demand for products seem to fail to allow enterprises to “recover” in 2013 their planned mid-year growth in tariffs. Therefore, financial performance results of the year may be found more dismal than in Q1 2013.

Changes in output volumes, net of seasonal factor  
(Balance=%growth - %decline)

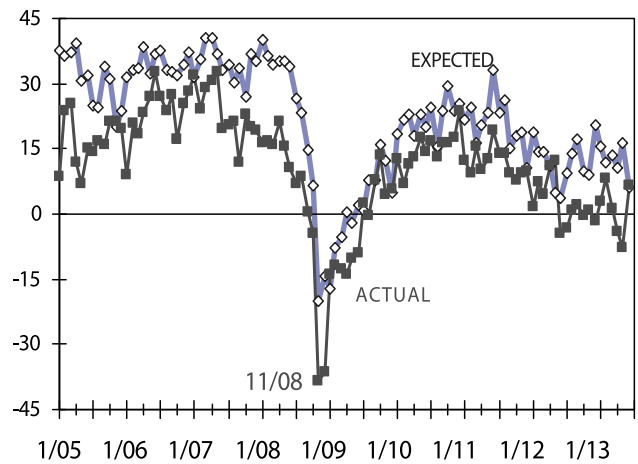


Fig. 3

Changes in wholesale factory prices  
(Balance=%growth - %decline)

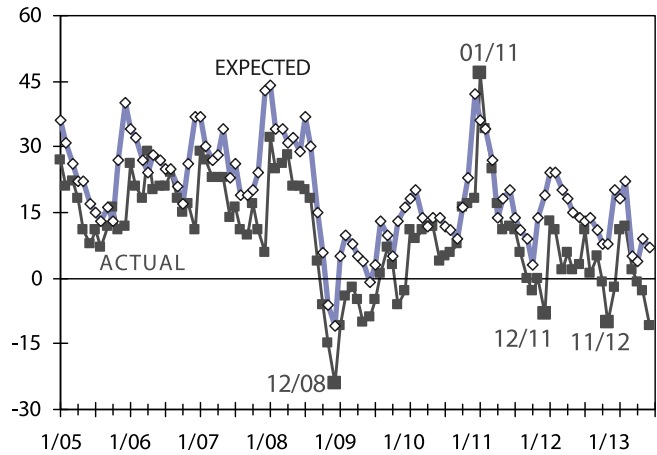


Fig. 4

Changes in employment  
(Balance=%growth-%decline)

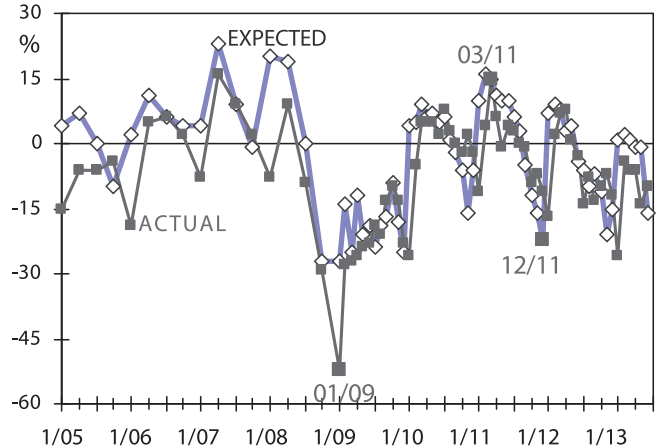


Fig. 5

**Layoff actual dynamics and plans**

In June 2013, business surveys didn't register serious changes in industrial employment dynamics. Enterprises have been reporting that layoffs continue to outnumber hiring (*Fig. 5*). As a result, the industrial production sector was losing (firing?) employees throughout the entire first half of 2013. In May-June, employment increased only in non-ferrous metal industry (balance +7 points) and food industry

(+9 points). Most massive layoffs took place in consumer goods industry (-20 points) and forest industry (-18 points). Layoffs prevailed in all enterprises, irrespective of their form of ownership and size.

Employment forecasts look don't look if anything promising. Forecast balance dropped 15 points at once in June from a zero level of January-May. It is for the first time in 2010-2013 that such a drastic slash in this indicator has been registered. ●