RUSSIA’S INDUSTRIAL SECTOR IN JULY 2013

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According to the data obtained during a series of business surveys conducted by Gaidar Institute[1], the situation with the Russian industrial sector in July 2013 can be evaluated through a few of contradictive components, namely continued demand weakening, mass usage of the price factor for sales support, plans to curtail investments and continued layoffs are combined with minimum output growth, rapid plus adjustment to appreciations of stocks of finished products, and growing optimism with regard to production plans.

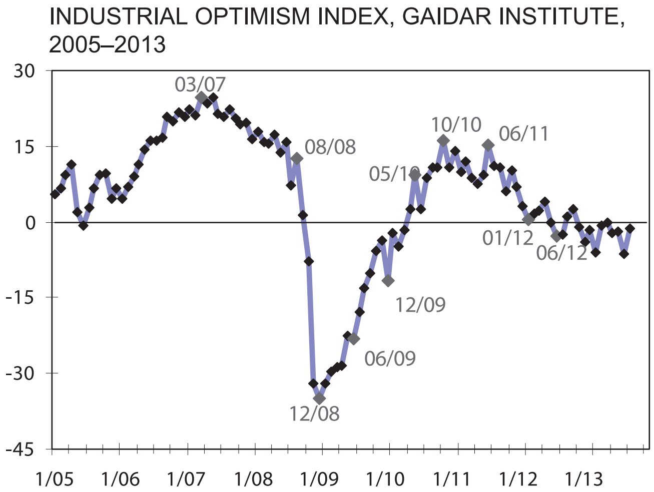

Fig. 1

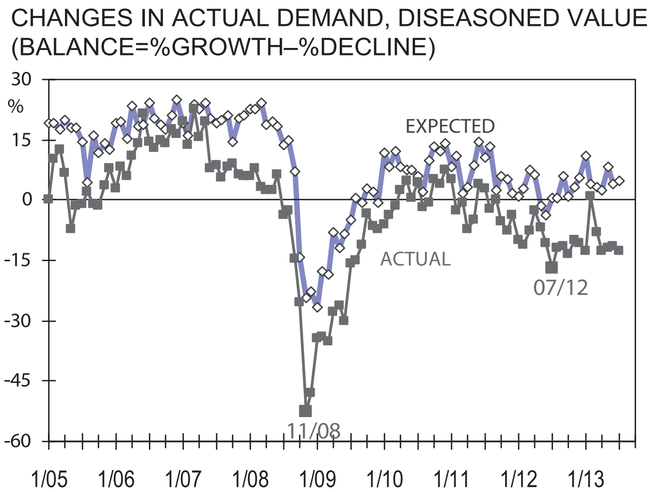

Fig. 2

Industrial optimism index

In July 2013, the industrial optimism index restored the June gap basically through changes in assessments of the current situation, thereby making unstable its dynamics (*Fig. 1*).

Industrial products demand

Diseasoned data on the demand dynamics in July 2013 show a continued months-long decline in industrial products sales (*Fig. 2*), whereas source data on the demand show a curve similar to sales dynamics in 2012: a short-lived revival in the demand at the end of Q1 2013 gave way to accelerated decline. However, the result in July 2012 remains the worst for demand dynamics since mid-2009, while the result in July 2013 is the worst over the last 12 months. However, the Russian industrial sector has been trying to adapt to the existing circumstances: the share of ‘normal’ answers about the demand in July 2013 was almost equal to the share ‘below normal’ ones.

Forecasts for the demand, which showed some improvement in May 2013, have been negative over the last two months, according to source data. However, diseasoned data keep them stable and positive, at a low level though.

Finished goods stock

After a shoot-up to almost pre-crisis values in June 2013 the balance of evaluations of finished goods stock (*Fig. 3*) has suddenly “baked up” to the values equal to those in January–April 2013, which are still high but far from pre-crisis values. Such an abrupt correction of assessments of stocks (not volumes!) is unusual against a four-months long decline in sales and generally not very optimistic forecasts of the demand. Growing “uncertainty about the current economic situation and its prospects” might have been one of the reasons of initial rapid growth and subsequent fall in stocks. This fact is likely to lead to such changes in estimates against relatively steady actual changes in values.

1 Gaidar Institute has been conducting a survey of heads of industrial enterprises in accordance with the European harmonization method in a monthly cycle since September 1992. The survey covers the entire territory of the Russian Federation. A panel comprises about 1100 enterprises with a headcount of more than 15% of industrial sector employees. The panel is biased towards large enterprises for each of selected subsectors. Questionnaires’ age is 65–70.

Output

No so much-desired positive changes in product output took place in July 2013, (*Fig. 4*). The indicator kept growing at a moderate rate. However, neither did the *June* plans look very optimistic, if anything. However, in July 2013 they again showed growth in optimism. And, in general, production-oriented state of mind was better in June-July 2013 than in the previous year.

If product output do increase in the period of August thru September, the Russian production sector plans to use basically road transportation to ship increased number of manufactured products. Road transportation operations might increase by 11 points, whereas railway transportation by mere 3 points. Detailed analysis shows that enterprises plan to replace railway cargo transportation with road transportation. If 8% of enterprises are ready to increase load upon railways "in the prejudice" of motor roads, as many as 20% of shippers in the industrial sector are ready to increase their road transportation by reducing or without increasing railway transportation. A balance is (-12 points) against railways.

Prices at enterprises

In July 2013, prices of enterprises kept falling, only slightly easing the rate of decline (*Fig. 5*). The June rate of decline appeared to be almost highest since the beginning of 2009. Therefore, the industrial sector couldn't "regain" growth in tariffs which took place in H2 2013, because it still has to recourse to a mass price-cutting with a view to reviving the demand. Though plans in May–July 2013 showed and show prevailing hopes of price rise.

Layoff actual dynamics and plans

In July 2013, the number of employees at industrial enterprises kept reducing (*Fig. 6*). Intensity of this process remained unchanged against June and slightly increased by a few points against May when the industrial sector saw most massive (after traditional January) labor outflow. Therefore, headcount reduction has been occurring for thirteen consecutive months. The biggest reduction over the previous few months occurred in forestry (-22 b.p.), ferrous metallurgy (-19 b.p.) and chemical industry (-16 b.p.). Considerable recruiting took place in food industry only (+13 b.p.), and non-ferrous metallurgy in part (+4 b.p.).

Recruiting plans are very pessimistic too. They have been showing negative values for more than a year, i.e. enterprises have been demonstrating at best their intention to retain the existing headcount, but in June-July 2013 they had to give up such a strategy and forecast already intensive headcount reduction. In short-term, employment is expected to increase only in con-

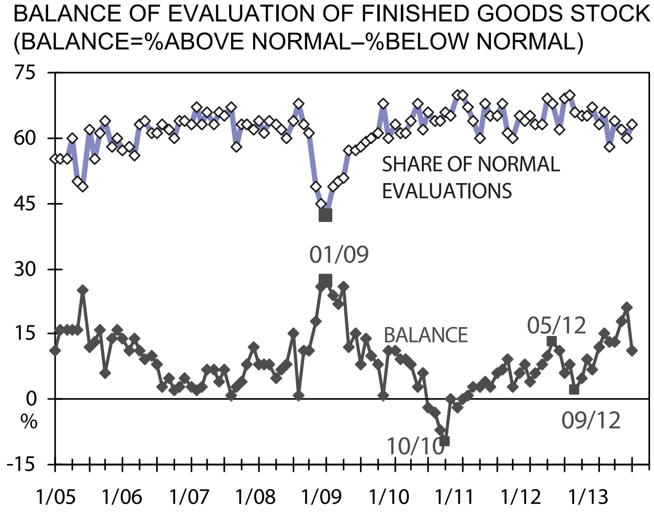

Fig. 3

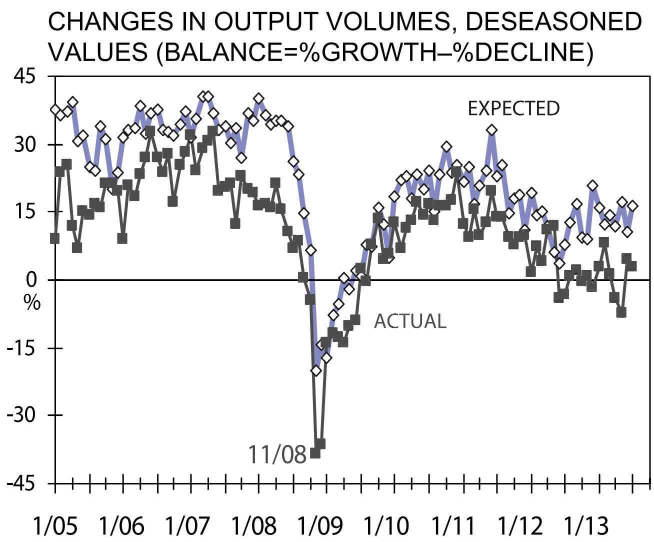

Fig. 4

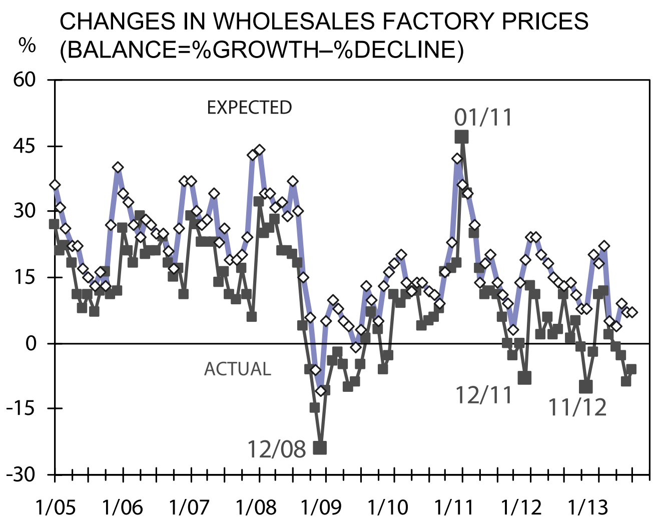

Fig. 5

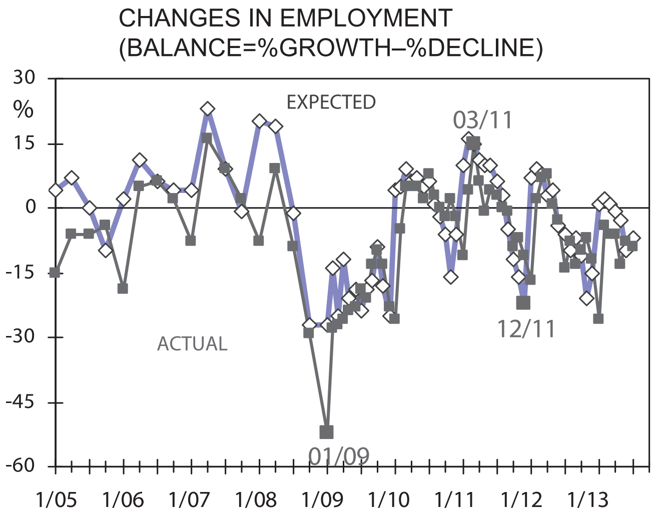

Fig. 6

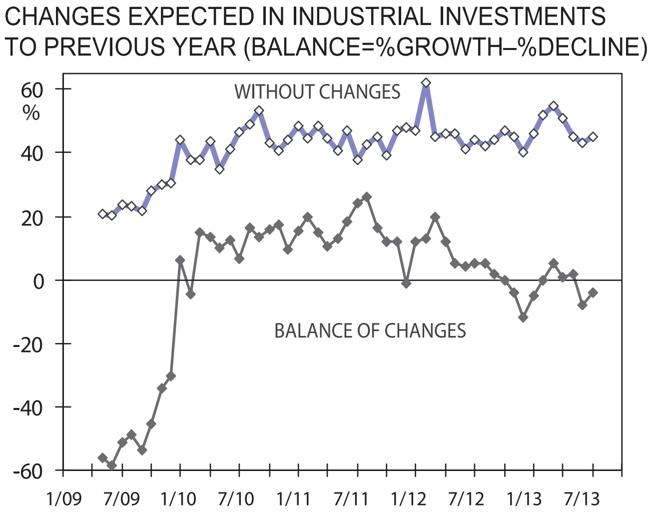

Fig. T

struction industry, light industry, and food production sector. Most mass layoffs are expected in ferrous metallurgy and chemical industries.

Enterprises' investment plans

Neither government officials nor analysts have been offered prospects of revival in investment activity as judged by the Russian industrial sector's investments plans (*Fig. 7*). Intentions to reduce investments have been prevailing over their increase for the second month in a row. Plans in the previous three months (March–May 2013) were too modest to be able to revive official statistics. The deepest decline in investment activity in the nearest months is expected in ferrous metallurgy (-37 p.) and forestry (-24 p.), whereas a small decline in non-ferrous metallurgy (-6 p.), machine building industry, and light industry (по -5 p.). Investment growth (+16 p.) is expected in construction industry only.

Loans to industrial sector

Overall availability of loans has been stable and standing at 72%, according to current estimates made by enterprises. An average minimum interest rate on ruble-denominated loans *offered* by banks was 12.5% in July 2013. A three-year historical maximum of 13.1% was registered in February 2013. The average interest rate was reduced basically through large manufacturers. Banks cut off 1.1 points (down to 10.6%) for enterprises with a headcount of more than 1000 employees, 0.6 points (down to 12.0%) for enterprises with headcount of 501 to 1000 employees, and 0.5 points (down to 13.1%) for enterprises with a headcount of 251 to 500 employees. Small- and middle-sized enterprises are often offered a rate of 15.0% p.a.

The effect of shortage of loans on Russia's industrial development remains minimal. As little as 3-4% of industrial enterprises have been considering for eight consecutive quarters that shortage of loans and credits interferes with their production growth (14th in the current ranking, 14 obstacles, according to enterprises). High interest rate on loans interferes with only 5% manufacturers in the real sector of economy (13th in the current ranking). It should be noted that manpower shortage (first of all, or even only, skilled workers) interferes with 38% of enterprises (2nd in the ranking!), but not included into the government's agenda yet.