

RUSSIAN INDUSTRY IN OCTOBER 2013

S.Tsukhlo

According to the data of business surveys of the Gaidar Institute¹, in October there were no principal changes neither in the dynamics of the demand, nor in the dynamics of the output of the Russian industry. The above situation caused growth in dissatisfaction about the volumes of current sales and made enterprises switch over again to reduction of prices in a hope to revive the demand. The continued outflow of workers from enterprises, worsening of forecasts as regards changes in the number of workers and negative investment plans supplement the gloomy situation of the beginning of the 4th quarter.

Demand on Industrial Produce

As in the previous month, weak dynamics of the main economic indices was observed in October. As before, by the end of the year demand demonstrates a growing slowdown which is adjusted by formal methods of season clearing. As a result, growth rates of a decrease in sales remain virtually unchanged for three months running (Fig. 1), but generally somewhat better than a year ago. However, lack of positive changes in the dynamics of the demand does not suit the industry any longer. After a three-month prevalence of "normal" answers in evaluation of the current volumes of the demand, in October "below the norm" answers increased by 2 p.p. In August, the correlation was a reverse one and the difference amounted to 9 points.

Demand forecasts, as well as its actual dynamics get worse by the end of the year. In October, the balance of initial forecasts (which is interpreted as the rate of change of the index) fell by to -12 points, while at the beginning of the year it amounted to +28 points. The above index went down during the past months of 2013, except for May, when a single rise of 7 points was registered. Within ten months of 2012, the loss of optimism of the demand forecast amounted to 33 points with the same result of October. With the seasonal factor cleared, all the 2013 forecasts are reduced to a narrow interval of +1 point to +8 points with constant fluctuations within the limits.

Stocks of Finished Products

In October, estimates of stocks of finished products showed that the share of "above the norm" answers surprisingly remained at the same level of 21%

1 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%.

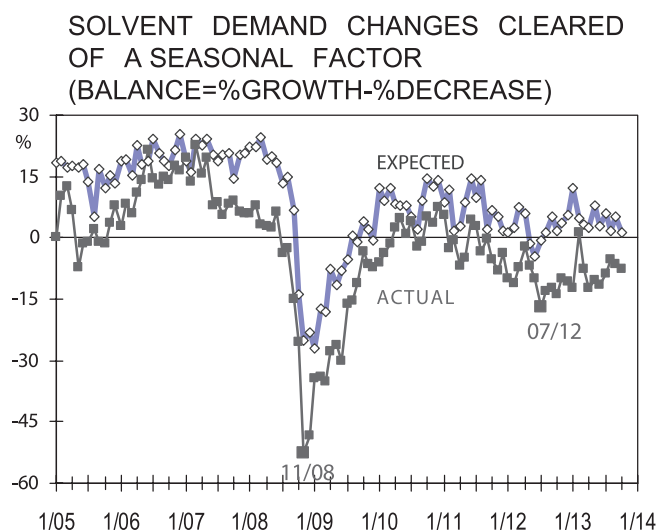


Fig. 1

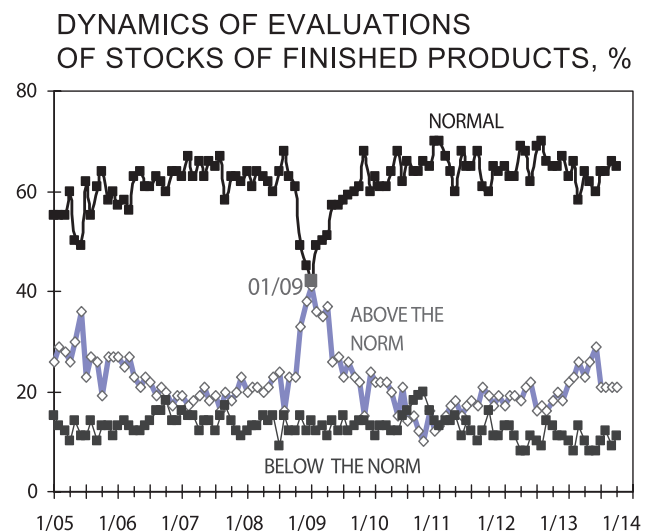


Fig. 2

which was set in the industry after a rise in that index to the four-year maximum in June. So, changes in the balance of evaluation of stocks of finished products were determined by fluctuations of the share of “below the norm” answers in the interval of 9 to 12%. As usual from the beginning of 2000s, the share of “normal” answers prevailed and remained in the past few months in the interval of 64% to 66% (Fig. 2). So, from the beginning of the 3rd quarter the industry in general effectively controls its stocks of finished products preventing both dramatic changes in their volumes and a sudden revision of the ideas about the normal level. It is to be noted that enterprises of iron and steel industry (88% of “normal” answers), chemical industry (76%) and nonferrous industry (74%) are more successful in that regard.

The Output

The output demonstrates a stable weak positive dynamics as regards the data cleared of the seasonal factor (Fig. 3). The balance of the index (growth rates) for five months running remains in the interval of +3 points to +6 points. The above results are better than those of the beginning of the year and the respective period of 2012. However, the initial data show that growth in the output is close to zero again as in July and April. Similarly to demand forecasts, the initial plans of the output have a stable negative dynamics from the beginning of the year, except for May when they rose by 9 points. However, within 10 months of the year the total drop in optimism amounted to 32 points: from +36 in January to +4 points in October.

Prices of Enterprises

In October, growth in enterprises’ factory prices stopped. The negative dynamics of the demand, weak output growth and lower expectations of their revival affect again enterprises’ pricing policy. Within a month, rates of actual growth in prices fell from +5 points to -3 points (Fig. 4). Pricing forecasts lost 7 points and fell to the four-year minimum. Such modest price intensions in the industry have not been observed since the mid-2009.

It is to be noted in accordance with the data of a three-year monitoring in 2013 the readiness to resort to an anti-crisis pricing policy has reached the maximum level of prevalence. In case of occurrence of a crisis slump in demand, 36% of enterprises are prepared at present to reduce prices even further, against 27% of enterprises earlier.

Actual Dynamics and Lay-Off Plans

In October, the outflow of workers from industrial enterprises continued. The balance of changes in the

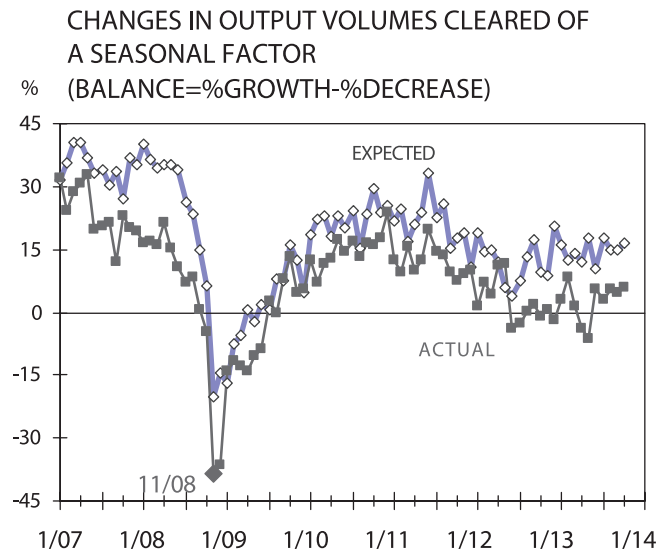


Fig. 3

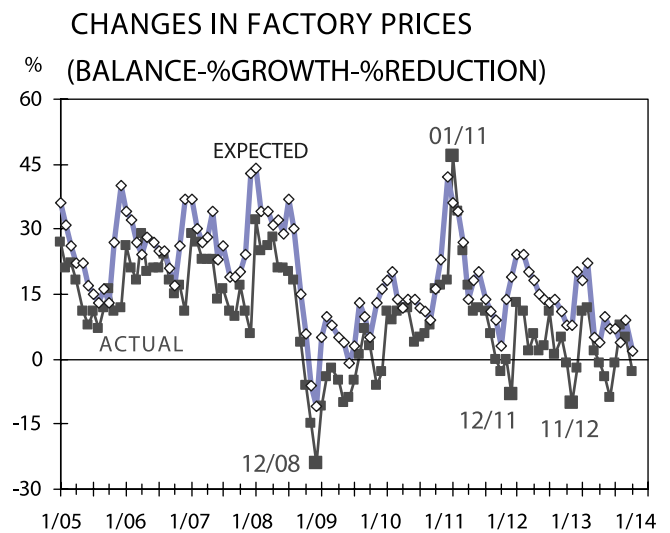


Fig. 4

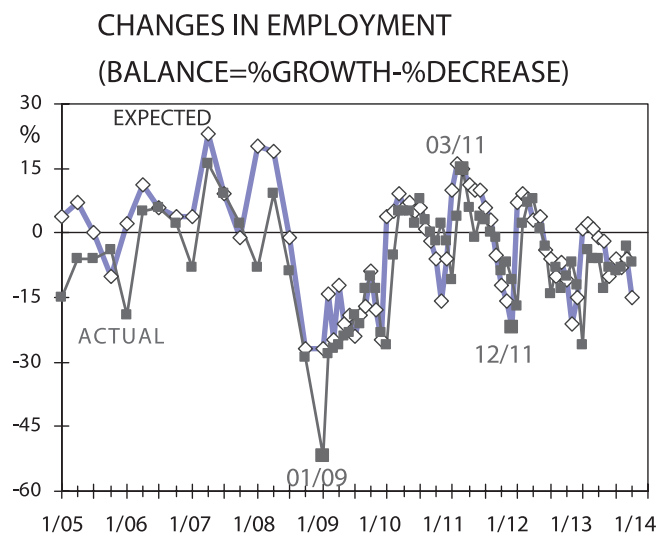


Fig. 5

index (the rate) fell to -7 points, but remained in the interval within which limits it stayed unvaryingly from February 2011 (Fig. 5). Thus, the industry is not able (does not want?) to overcome that negative (?) trend of lay-offs. Forecasts of changes in employment show that such a situation will remain in the next months, too. It is to be noted that according to surveys the largest "drop" in employment forecasts in the past three years was registered in October. Probably, it can be justified by the effect produced by the official statement of the head of the government that the authorities would not deal with lay-offs in case of a new crisis.

The outflow of workers from enterprises in stagnation conditions may solve a topical issue of the Russian economy, that is, the problem of low labor efficiency. According to the long-term monitoring, from the end of 2010 maximum one-third of industrial enterprises estimated their actual labor efficiency as a low one ("below the norm") which was a factor of weak motivation for its growth. But in October 2013 the share of such evaluations rose to 41%. As a result, it seems the number of supporters of higher labor efficiency in industry has become larger.

Enterprises' Investment Plans

For three months running, enterprises' investment plans has remained at the minimum level since the beginning of 2010 (Fig. 6). Completion of the year 2013 with striking investment plans is hardly feasible, at least by means of non-government investments. The industry refuses more explicitly to invest in production which prospects are not clear to anyone, including leaders of the Government of the Russian Federation and the Ministry of Economic Development of the Russian Federation.

Positive balances of investment plans remained in the electric power industry and the fuel industry which

EXPECTED CHANGES IN INVESTMENTS IN CAPITAL ASSETS AS COMPARED TO THE PREVIOUS YEAR (BALANCE=%GROWTH-%DECREASE)

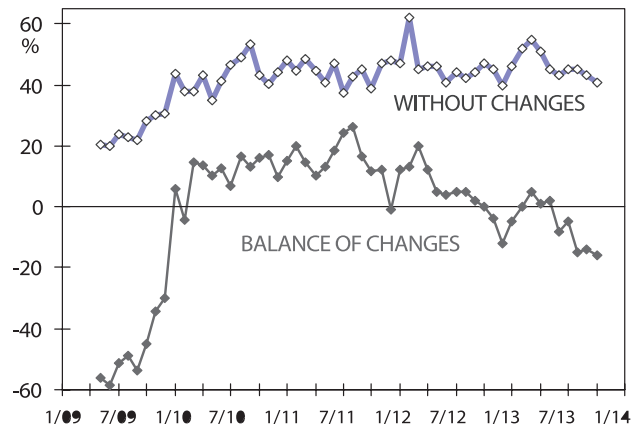


Fig. 6

factor confirms the fact that the above industries are in a privileged position. The chemical industry, light industry and food industry showed zero balances of investment intensions. With completion of the summer building season, the building materials industry scaled down its investment plans from explicit growth to an explicit drop (-11 points after +14 points). A less important as regards the extent but more dangerous "investment change" was registered in the engineering industry which changed the expected symbolic reduction (-3 points) in the mid-year by the forecast of a dramatic drop (-14 points) in investments. However, the largest drop in investments should be expected in metallurgy. Enterprises of that industry lowered their balances of expectations to -57 points and -28 points in ferrous industry and nonferrous industry, respectively. ●