

RUSSIAN INDUSTRY IN JANUARY 2014

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The initial data of the business surveys of the Gaidar Institute¹ on the state of things in the Russian industry showed that in January the situation did not change for the worse and modest positive signals late in 2013 might consolidate in 2014. The positive dynamics of the demand permitted to maintain output without growth in excessive reserves of finished products. However, the pessimism of forecasts of demand, output, prices and investments point to the fact that enterprises are still uncertain about quick and sustained industrial growth.

Demand on Industrial Produce

In January, a drop in demand on industrial produce – which drop is typical of the beginning of the year – did not amount to a traditional extent. The initial data showed a decrease in the balance of answers only to -26 points, while in previous years it fell to -40 p.p. According to the initial estimates, the share of reports on growth in demand amounted to 11% after 1% in January 2013 and 5% in January 2012. As a result, clearing of a seasonal factor showed the result which is unique in the last two and a half years – a positive balance, that is, growth in demand (Fig. 1). However, it is with a minimum intensity rate of +3 p.p. Despite the explicit positive dynamics of demand, the volume of sales of products achieved in January satisfied only 46% of enterprises, while 53% of manu-

facturers believed that their sales were “below the norm”, against 57% of such estimates a year ago.

Forecasts of the demand of the beginning of 2014 do not instill optimism. According to the initial data, they improved only by 33 points though a year ago growth in January amounted to 48 points, while two years ago, to 40 p.p. So, clearing of a seasonal factor produced a fairly modest result of +1 point which is within the band of values of the past few months.

Stocks of Finished Products

For seven months running, estimates of stocks of finished products have been relatively stable and slightly excessive. A larger part (two-thirds) of industry believe that the above stocks are normal. So, enterprises quite successfully control that index after its surge at the end of the first half-year of 2013 to the post-crisis maximum.

The Output

In January, following the demand the output showed a drop which on the basis of the initial data was not that dramatic as in the previous years. After clearing of a seasonal factor, the balance became a

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%.

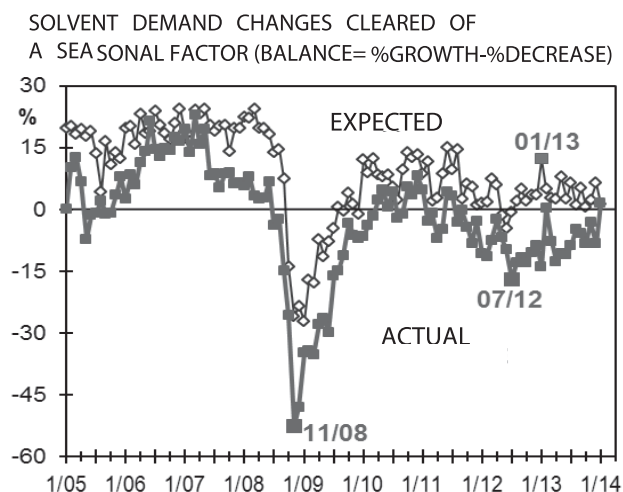


Fig. 1

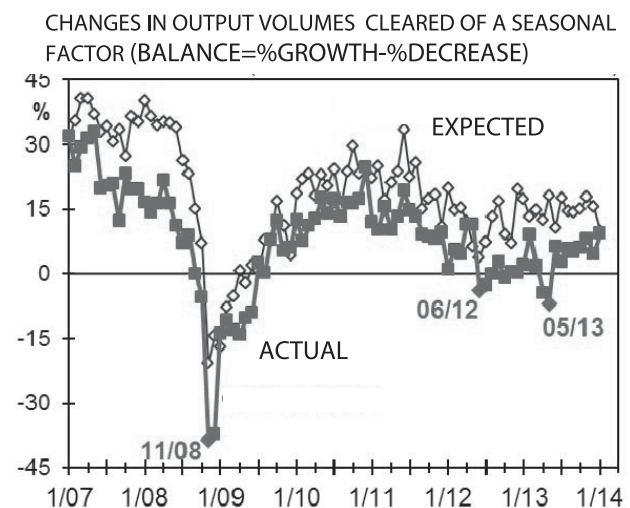


Fig. 2

positive one (Fig. 2). However, output plans, as well as demand forecasts did not show proper growth in optimism which is typical of the beginning of the year. The balance rose only to +27 p.p., though in the previous year its value in January was 10 points to 12 points higher. With the seasonal factor cleared the balance of plans fell to +10 p.p. which value was the 14-month minimum. So, enterprises do not believe so far that positive changes which took place late in 2013 and early in 2014 will be preserved.

Utilization of Capacities

The data on the positive dynamics of demand and output is supported by the data on loading of capacities and provision with orders. In January 2014, the first index traditionally fell, but not to the extent as a year before. At present, 66% of capacities of industry are utilized (Fig.3), while in December 2013 (an unscheduled measurement) loading of capacities amounted to 69%. The other index appears more optimistic: provision with orders in months. In January, it rose to 6.2 months, having restored the normal practice of formation of the production program in the beginning of the year. That regular pattern was upset twice in the past few years: in January 2008 and January 2013. However, in other post-crisis years in January the above index exceeded seven months, while in the 2005–2007 period it remained at a high level even in the beginning of the 2nd quarters.

Prices of Enterprises

Pricing policy of enterprises keeps demonstrating modesty of actual actions and intentions of producers in that field (Fig. 4). In January 2014, actual growth in prices turned out to be relatively modest as compared to the previous post-crisis years. Forecasts of enterprises which rose in December to values which were normal to that period fell in January to the upper level of price expectations which were registered late in 2013. It is to be noted that the earlier high level of forecasts of the beginning of the year continued for 2-3 months.

Actual Dynamics and Lay-Off Plans

In January, the industry traditionally reported about substantial lay-offs of workers. The rate of lay-offs of personnel amounted to 25 points which is a normal January level of the past few years. On the contrary, the forecasts of change in the number of workers traditionally improved (by 22 points in January 2014) and even entered the positive area. However, implementation of those plans may encounter several obstacles.

Firstly, enterprises changed substantially estimates of their provision with personnel. If in the previous

LOADING OF CAPACITIES (%) AND PROVISION WITH ORDERS (MONTHS)

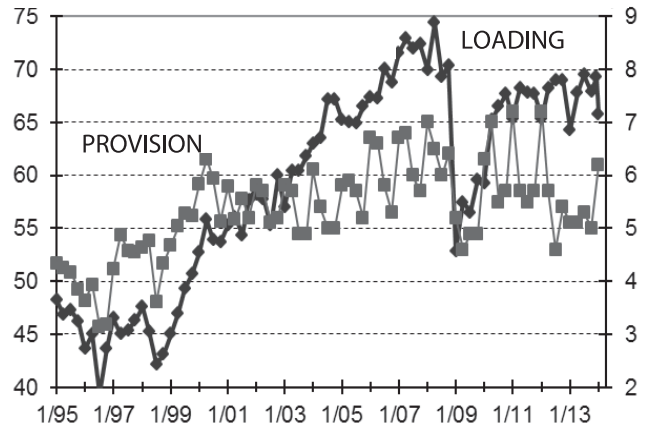


Fig. 3

CHANGES IN SELLING PRICES (BALANCE-%GROWTH-%REDUCTION)

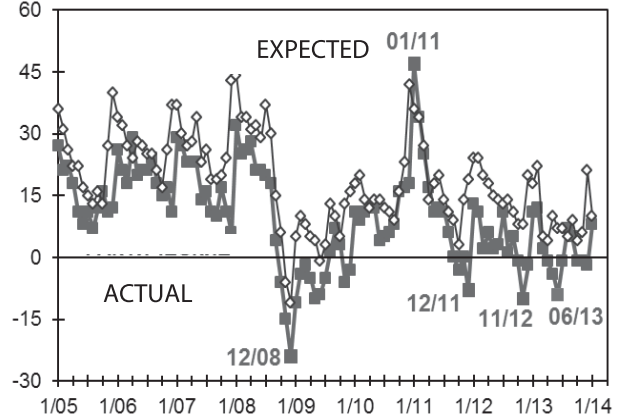


Fig. 4

three quarters in industry the “less than sufficient” answers dominated over “more than efficient” answers and, consequently, the balance was a negative one (that is there was a lack of personnel), in January 2014 the balance became a zero one due to a decrease (quite a dramatic one) in the share of “insufficient” answers. It is to be noted that excessive provision of enterprises with personnel remained at the same level, that is, “insufficient” answers most probably were changed by “sufficient” answers.

Secondly, a restraint effect of insufficiency of personnel on growth in production stabilized, but at the level of 34% which is fairly high for the post-crisis period. So, a third of industry experiences a lack of workers, but – for increase of output in the current month. Estimates of provision with personnel by the scale “more than sufficient”, “sufficient” and “less than sufficient” are made by enterprises “due to the expected changes in demand”, that is, with prospects taken into account. It is to be noted that prospects of the Russian economy are not bright even by official estimates.

Enterprises' Investment Plans

Enterprises' investment plans remain at the post-crisis minimum level set in August 2013. From that time, the balance of intentions in industry has been invariably within the range of -15 points..-12 points (Fig. 5). It is to be noted that within that period only 17–20% of enterprises reported about their intentions to increase investments in production; the above values are the minimum since the beginning of 2010.

Banks' approach to provision of loans for investments in industry is not the most widespread problem for industrial enterprises in attraction of investment loans. Firstly, late in 2013 nearly a third (31%) of enterprises used investment loans. Secondly, 30% of enterprises has sufficient own funds to finance investments, but in volumes which are regarded normal by enterprises and not officials. On that issue, enterprises and officials hold quite different views. Thirdly, 16% of enterprises declare directly that: "at present there is no point in investments". The high rate on loans is rated the 4th in the rating of problems related to attraction of investment loans (as stated by enterprises). The above factor was referred to by 15% of enterprises which were surveyed in the 4th quarter of 2013. Weak (unreliable) financial performances were self-critically

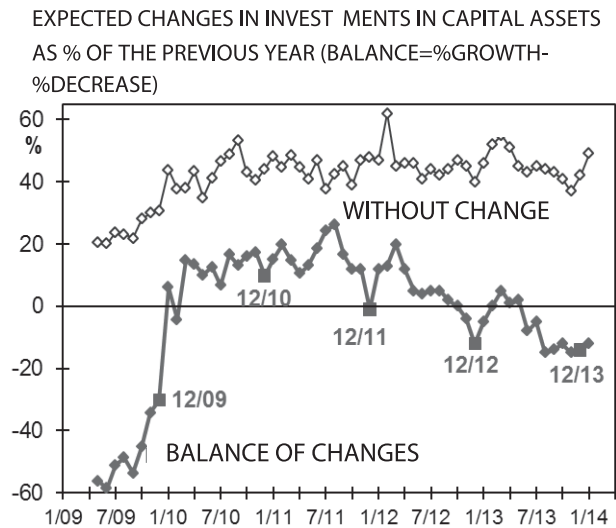


Fig. 5

rated the 5th by enterprises in that rating. There was 11% of such estimates. Investment loan periods were rated the 6th in the above rating with 6% of enterprises complaining about that factor. Other problems (the size of a loan, collateral-related problems, credit history, difficulties related to execution of an application for a loan and certainty about a loan denial) were referred to by maximum 3% of enterprises. ●