RUSSIAN INDUSTRY IN DECEMBER 2013

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Analysis of the system of business surveys of the Gaidar Institute[1] permits to say negative changes in the dynamics of demand become regular for Russian industry where output growth in such a situation differs little from zero, prices depreciate, stocks of finished products are successfully controlled and revival of sales is expected next year.

Demand on Industrial Produce

Late in the year, demand on industrial produce underwent dramatic negative changes. The initial data showed in December the highest rate of decrease in sales in the past five years. A more intense December drop in demand was registered only during the crisis in 2008. With a seasonal factor cleared, the December rate of decrease in demand was the worst in the past year and a half (*Fig. 1*). However, such dynamics in sales becomes regular for Russian industry. In the past five months, the initial rate (balance) of changes in demand fell from 0 p.p to -22 p.p., while the zero growth in sales gave way to a dramatic drop. In the same period, the share of "normal" answers in evaluation of its volumes fell from 54% to 47%, that is, by the mere 7 points, while the share of the "below the norm" answers rose only to 51% against December. As a result, the balance of evaluation of sales volumes amounted to the mere -4 p.p.

By the end of the year, forecasts of the demand demonstrate, on the contrary, uncharacteristic growth in both the initial data and that cleared of a seasonal factor. In the pre-crisis years, in December the balance of expected changes in sales either kept falling, or remained at the worst level achieved in November. At present, the initial balance rose by 4 points, while that cleared of the seasonal factor, by 3 points. As a result, that index managed to retain positive values (at least after clearing of a seasonal factor) and keep the industry from more dramatic negative changes in output.

SOLVENT DEMAND CHANGES CLEARED OF A SEASONAL FACTOR (BALANCE=%GROWTH—%DECREASE)

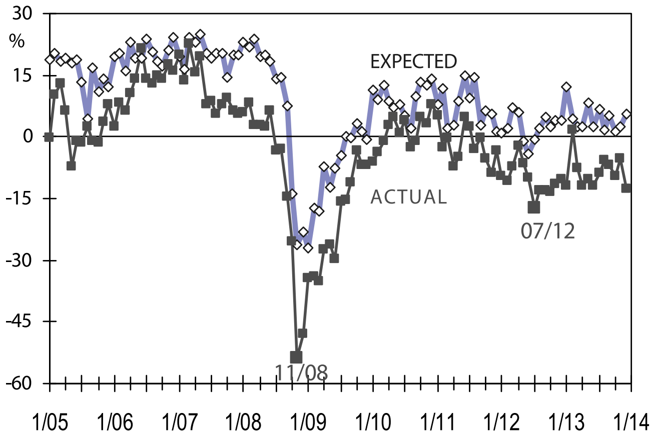

Fig. 1

BALANCE OF EVALUATIONS OF STOCKS OF FINISHED PRODUCTS (BALANCE =%ABOVE THE NORM—%BELOW THE NORM)

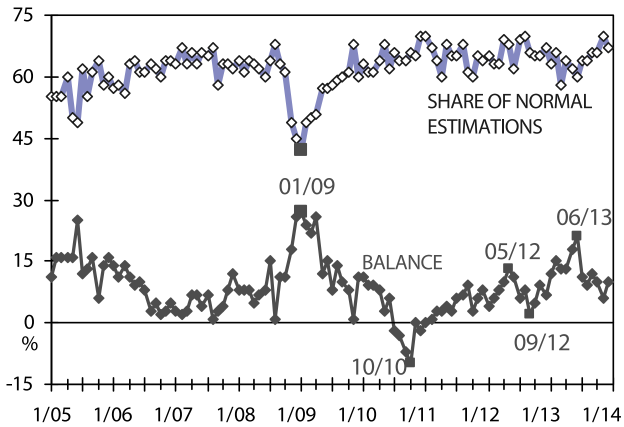

Fig. 2

Stocks of Finished Products

In the second half-year of 2013, the balance of evaluations of stocks of finished products was very stable and did not exceed the level of +12 p.p. After a surge of the index in June when excess of stocks of finished products amounted to the post-crisis maximum level, the industry managed to balance successfully the output volumes with the demand on its produce (*Fig. 2*). However, by sectors the overall balances of estimates of stocks of finished products in the second half-year

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%.

differ significantly. The most excessive stocks were reported by the light industry (+30) and building industry (+21). In the second half-year, engineering estimated its stocks of finished products at the balance of +10 points. The lowest excessive stocks were reported by the nonferrous industry and the chemical industry (+7 each), the food industry (+5) and the forest industry (+1). Enterprises of the iron and steel industry already brought their stocks of finished products to a deficit (-3 points).

The Output

The December data on the dynamics of output showed a decrease in industrial output in absolute terms which is typical of the end of the year. For the third time within a year, the initial balance (after a usual drop in January and a new one in May) became a negative one (*Fig. 3*). Also, clearing of a seasonal factor showed a decrease in the rates of changes in the index, but left it in the positive area, though its value was rather modest in absolute terms, which means that the actual change in the industrial output differs little from zero.

In the past five months, output plans steadily decrease and in December they fell to -12 points as regards the initial data. That value of the index is somewhat better than the worst values of the previous two years which also fell traditionally into the end of the year. The highest optimism of the index was also traditionally registered at the beginning of the year and amounted to +37 points. A similar balance of forecasts was received in February 2012. However, in 2010 and 2011 the industry started with more optimistic forecasts: +47 points and +50 points, respectively. Clearing of a seasonal factor reduced the balance of the latest forecasts of output by 4 points, but left it within the limits of a relatively narrow band of +12..+18 in which it has stayed from the beginning of the year.

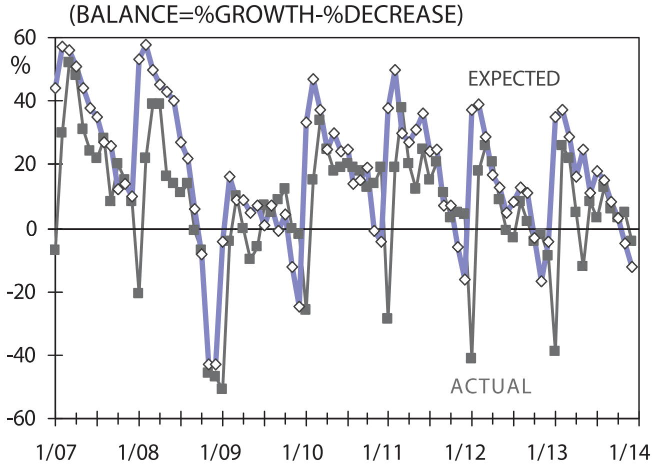

Fig. 3

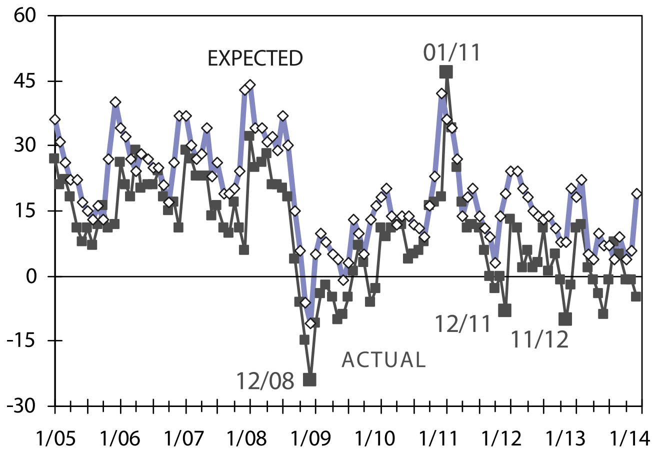

Fig. 4

Prices of Enterprises

In December, the industry decided to reduce selling prices after their growth in August–September and stabilization in October–November. However, the rate of decrease (-5 points) turned out to be the most modest one in respective months of 2011–2012. The result of December yields to that of June 2013 when prices were falling at the rate of -9 points. Such a "weak" result of enterprises' pricing policy at the end of the year can sooner be explained by intense growth in costs which took place at the end of the year, too (*Fig. 4*).

Enterprises' pricing forecasts show the expected growth in prices from the beginning of the year. In December, the balance of forecasts rose by 12 points which situation has become a normal one for that period of the year. However, during the previous nine months (March–November) the index was stable, while in previous years it was smoothly falling in that period. So, from the beginning of 2013 the industry was prepared to sacrifice its prices in return for growth in demand. The result of the above was probably a decrease in prices in May-June which was comparable by its extent to a drop in prices at the end of the year. However, that pricing policy failed to produce a due effect on the sales dynamics.

Actual Dynamics and Lay-Off Plans

In December, the rate of lay-offs in the industry rose to the worst values (not January ones). In the previous months of the second-half year, the index demonstrated surprisingly stable and relatively slight rates of workers' exit from enterprises. At present, the balance of actual

CHANGES IN EMPLOYMENT
(BALANCE=%GROWTH—%DECREASE)

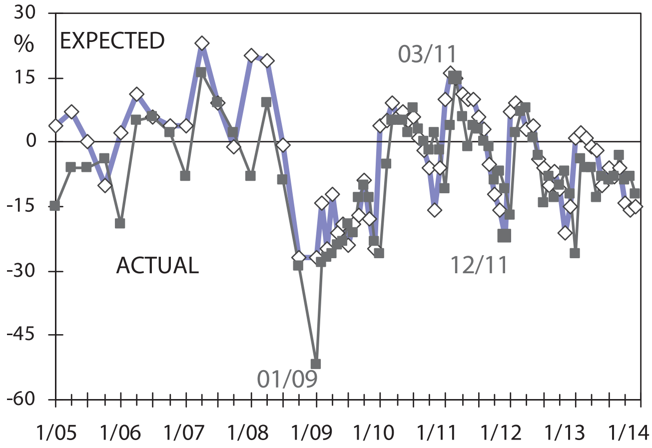

Fig. 5

EXPECTED CHANGES IN INVESTMENTS IN CAPITAL ASSETS AGAINST THE PREVIOUS YEAR
(BALANCE=%GROWTH—%DECREASE)

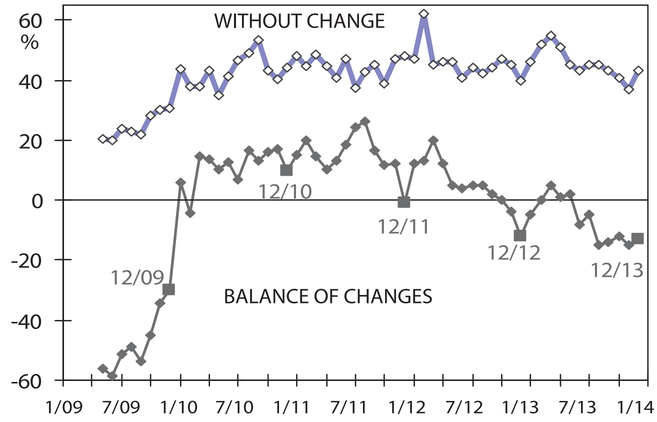

Fig. 6

changes increased to -12 points. However, that value of the index turned out to be very close to the forecasts of October-November which also stabilized in the 4th quarter at the level of -15 points after -7 points in the 3rd quarter. The year result for enterprises turned out to be disappointing: in 2013 the industry never succeeded in increasing the number of its workers (*Fig. 5*).

Enterprises' Investment Plans

For five months running, balances of investment plans of enterprises remain at the level of the post-crisis minimum (*Fig. 6*). On average, only 18% of industrial enterprises reported in August-December 2013 about their plans to increase investments in their own production as compared to respective months of the previous year. The share of reports about the reduction of investments amounted on average to 32% and was equal in November to 35%. The main portion of enterprises (on average 42%) was prepared to maintain the previous volumes of investments.