

RUSSIAN INDUSTRY IN FEBRUARY 2014

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As industry gets back into work mode after the January holidays¹ this is occurring slowly and does not promise any new positive trends. A steeper decline in demand has resulted in the slowdown of output with the normal levels of excess reserves of finished products. Companies are having to be especially cautious when raising their prices and when predicting the modest growth of these in the future. Investment plans have still failed to overcome the pessimism of the second half of 2013.

Demand for industrial products

In February the dynamics of demand for industrial products tried to recover from the relatively modest fall in January but failed to realise any tangible results. The initial balance of -29 points only rose to zero, whereas last year the increase had been 52 points (from -42 to +10). Adjusting for seasonality indicated a faster decrease in sales, to -8 points, although the January result now has a brighter estimate, at -2 points (*Fig. 1*). As a result, there is a continued predominance of unsatisfactory demand estimates, although this is relatively small (53% vs. 47%), stable (52% in January) and lower than last year (when it was 57%). Thus, the industry is not yet inclined to show sharply negative estimates for early 2014.

Demand forecasts improved in February by 9 points and, as a result, reached the traditional start-of-year maximum of original data. Removing seasonal and calendar factors showed an increase in the forecasts compared with the modest January result of 4 points. But this has not turned into a major change in expectations for businesses — the indicator has remained in a relatively narrow corridor for 13 consecutive months already, with no hint of the formation of any clear trends.

Stock of finished products

The estimated stock of finished products in February did not change fundamentally for industry as a whole and the reserves remained within the usual corridor retained by enterprises since July 2013 (*Fig. 2*). The proportion of “below normal” responses was 8%, which is a historical minimum for this indicator, showing minimal problems with the replenishment of stock by businesses. In the “old days” — in 1999 — the share of “below normal” responses reached 40%, exceeding other estimates of reserves.

¹ Business surveys of the managers of industrial enterprises have been conducted by the Gaidar Institute using a European harmonised method in monthly cycles since September 1992, covering the entire territory of the Russian Federation. The panel size is about 1,100 enterprises employing over 15% of industrial employees. The panel is shifted towards large enterprises for each of the segregated sub-industries. The ratio of returned questionnaires is 65–70%.

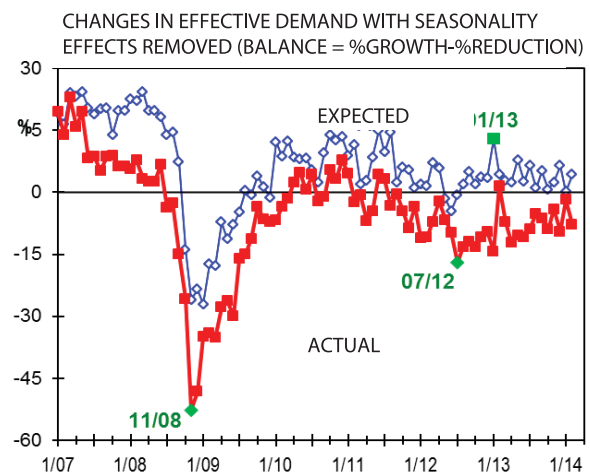


Fig. 1

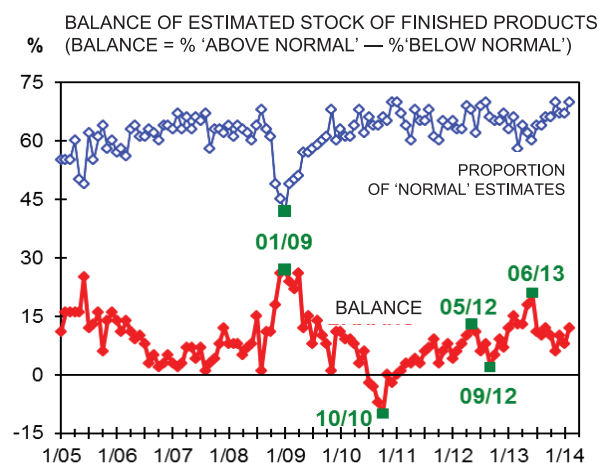


Fig. 2

Output of products

In February industrial production began the traditional recovery from the no less traditional January decline. Initial business survey results showed a weaker recovery of production in February. The seasonally unadjusted balance (growth rate) reached only +8 points whilst in 2013 it had reached +29 points, in 2012, +17

points, and in 2011, +19 points. Hence, once adjusted for seasonality this showed an absolute reduction in output with a balance (growth rate) of -5 points, which was almost the lowest since July 2009. A worse result (-7 points) for this period was obtained only in May 2013 (Fig. 3).

However, production plans have not lost their optimism and, as with the demand forecasts, have remained within a narrow corridor since early 2013.

Business pricing policy

Business pricing policy continues to demonstrate moderation by manufacturers and their desire to activate demand. The growth of actual prices in January-February 2014 (Fig. 4) was the most moderate for the period 2009–2014 with the natural exception of 2011, when an increase in the rate of insurance premiums caused companies to show the highest growth rate in start-of-year prices since 1995 (!). As shown by detailed analysis, almost the entire surge in price growth at the beginning of the year was accounted for by state enterprises. The balance of change of the indicator in this group was +38 points, whilst for open joint-stock companies it was +8, for closed joint-stock companies, zero, and for limited liability companies, was even -1 point.

Businesses forecasts supplement the data on actual price growth. A sharp increase in this indicator was recorded by business surveys only in December 2013, after which the forecast growth rate decreased to that of the corridor for March–November 2013. In previous years businesses had maintained high price forecasts during the first two-three months of each year. In the pricing plans of January-February the Russian industry public sector was a leader in demonstrating its readiness to increase prices, with an intensity of +36 points. The same indicator for open joint-stock companies was +10 points, for closed joint-stock companies +9, and for limited liability companies, 0 points.

Actual dynamics and plans for layoffs

The traditional January surge in the number of employee layoffs changed in February to a moderate predominance of layoffs over hiring, also traditional for industry. This balance of the indicator was registered by business surveys in February–December 2013. Thus, no new tendencies in employment dynamics have been recorded yet: industry is continuing to reduce its workforce (Fig. 5).

However, the January business forecasts, which had rocketed to the record level of +7 points in previous months, showed that the industry would like to stop the outflow of staff and to compensate for the deficits which arose in enterprises, even under conditions of stagnation. However, the February forecasts have

SEASONALLY ADJUSTED CHANGES IN PRODUCTION VOLUMES
(BALANCE = %GROWTH-%REDUCTION)

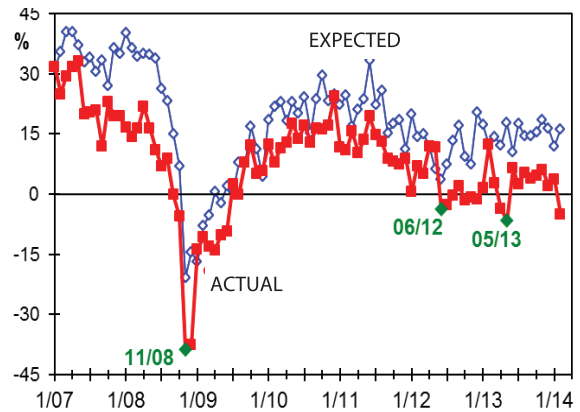


Fig. 3

CHANGES IN FACTORY PRICES
(BALANCE = %GROWTH-%REDUCTION)

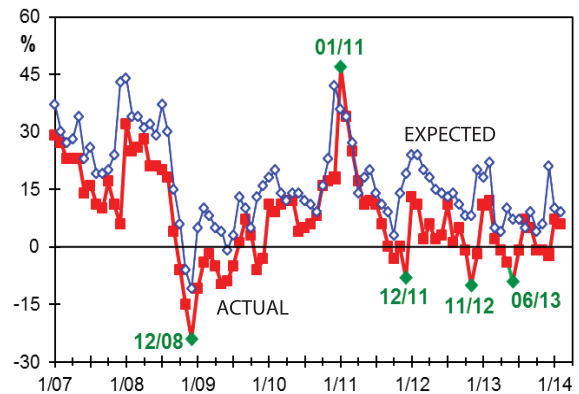


Fig. 4

CHANGES IN EMPLOYMENT
(BALANCE = %GROWTH-%REDUCTION)

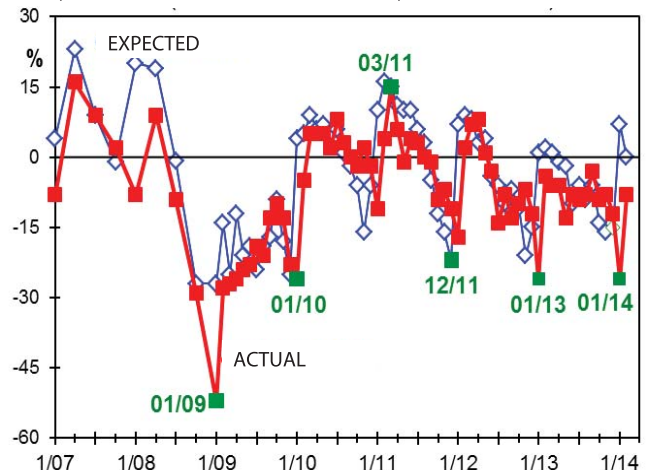


Fig. 5

already demonstrated that enterprises have been forced to abandon such plans as being unattainable, or to revise them under the conditions of general economic pessimism.