

## THE RUSSIAN INDUSTRY IN MARCH 2014

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According to the data of business surveys carried out by the Gaidar Institute<sup>1</sup>, the first estimates of March did not identify any principal changes in the dynamics of demand, output, employment and investments of the Russian industry. However, enterprises' prices have, probably, started to yield to the inflationary pressure, while reserves, to growing uncertainty of forthcoming months.

### Industrial optimism index

The first data of March showed a somewhat improvement of the Russian industry's mood thanks to which the index amounted only to the zero level (Fig. 1). The above factor fairly reflects the situation which was formed at enterprises long ago.

### Demand on industrial produce

By enterprises' estimates, in March the demand on industrial produce kept recovering after a traditional drop in January. The initial balance of a change in the index (an analog of growth rates in traditional understanding) gained another 4 points and entered the positive area. A year before, the balance of that index became positive as early as February. As a result, *clearing of a seasonal factor showed continued reduction of demand at nearly the same (as in February) rate of intensity* (Fig. 2).

However, such dynamics of demand did not disappoint enterprises at all – for the first time from 2013 the share of “normal” estimates exceeded (though to the minimum extent) the share of “below the norm” estimates. *The industry demonstrated again high adaptation to a complicated existing situation and increased uncertainty of the forthcoming months due to the Ukrainian crisis.*

The above factor affected the forecasts of the Russian industry's sales even in a situation of depreciation of the ruble exchange rate and import substitution expected by experts and the authorities. After the modest February maximum, in March the balance of forecasted changes in demand (that is its growth rates in traditional understanding) fell to +12 points, while in the previous post-crisis years it amounted to +18...+23 points. With the seasonal factor cleared, the balance

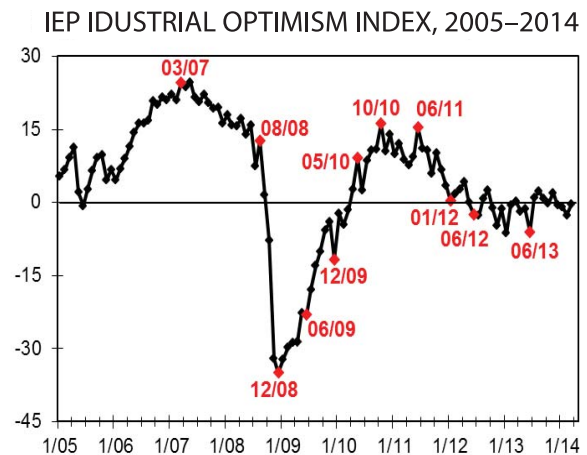


Fig. 1

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

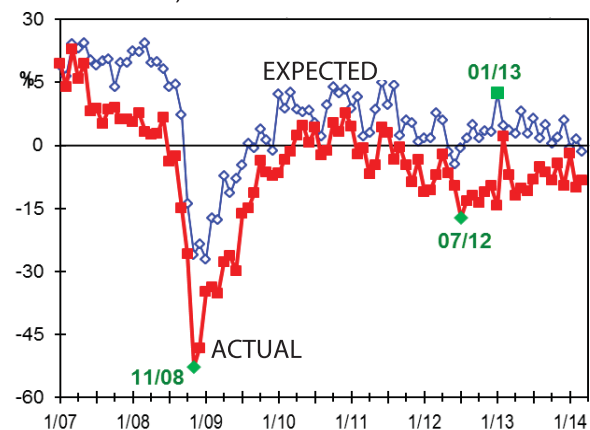


Fig. 2

fell to negative values. *Generally, in the 1<sup>st</sup> quarter of 2014 dynamics of forecasts is worse than the values of the index for the respective period of the previous year.*

### Stocks of finished products

In March, the balance of estimates of stocks of finished products (Fig. 3) decreased by 6 points and

<sup>1</sup> 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%.

amounted to the 18-month minimum. In other words, *such modest surpluses of stocks of finished goods have not been registered by surveys since September 2012.*

**Output**

According to the initial data, in March the rate of intensity of output growth gained another 12 points and as a result amounted to the value which is typical of that month. After clearing of the seasonal factor, the output growth rates (Fig. 4) returned to the zero level which situation points to *preservation of hardly discernable rates of a change in output of the Russian industry* and permit to gain the aggregate result with any sign as a result of application of methods of exclusion of seasonal and calendar factors which differ a little from each other.

A similar situation takes place in respect of the industry's output plans. After clearing of the seasonal factor, that index returned to the limits within which it stayed from January 2013. So, *hopes for moderate output growth still prevail in the Russian industry.*

**Prices of enterprises**

*In March, the Russian industry continued to maintain high intensity of growth in prices (Fig. 5) which was only two points below the January rate of a change in the index. During the past two years, by the end of the 1<sup>st</sup> quarter the balance would lose momentum and head for the zero level. In 2014, in a situation of a higher pressure on the ruble exchange rate and stronger inflationary processes enterprises have to change their pricing policy even to the detriment of sales.*

Also, enterprises' pricing forecasts behave untypically. Firstly, the pre-new year surge in the index was limited to one month (December), though in previous years enterprises smoothly increased their forecasts and/or kept them at the maximum level for a few months. At present, sales problems made enterprises behave differently. Secondly, a January reduction in forecasts was not maintained, while in March the index rose by several points. Enterprises started to take into account changes in the inflationary situation in the economy.

**The actual dynamics and layoff plans**

*Exit of workers from the Russian industry continues (Fig. 6). After a typical surge of layoffs in January, in March the balance of changes in the number of personnel rose only to -10 and -8 points and came as a result to the level of reduction of the number of workers (the rate of intensity) which was typical of the second half of 2013. Forecasts of a change lost the January optimism. After a 22 point surge to +7 points in the beginning of the year, as early as February the balance*

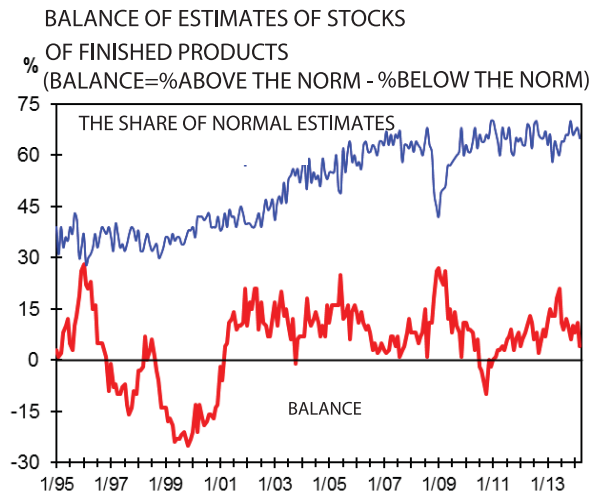


Fig. 3

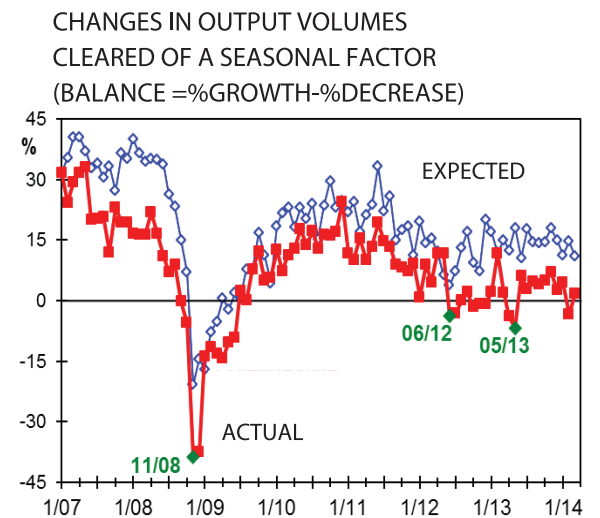


Fig. 4

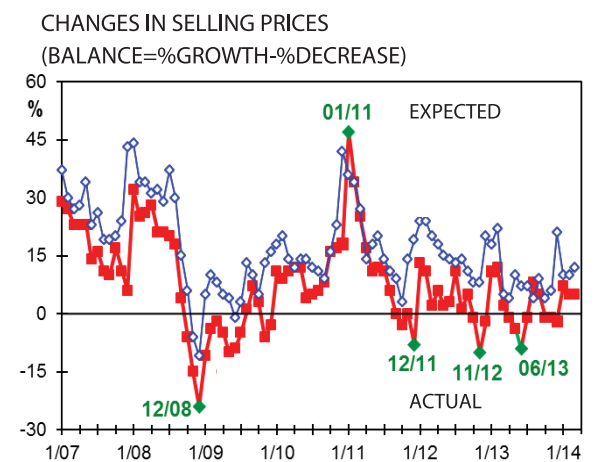


Fig. 5

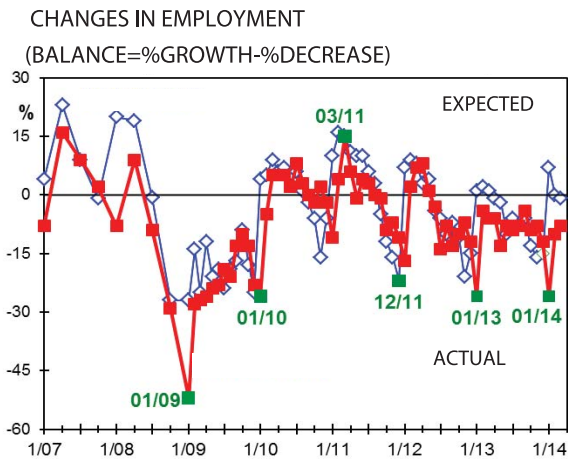


Fig. 6

became zero and retained that value in March. The industry realized again that efforts related to employment of personnel lacked prospects. However, *so far it does not create problems related to provision with personnel of industrial growth expected by enterprises.* In the 1<sup>st</sup> quarter of 2014, the balance of estimates of the current number of workers became zero, that is, the share of the *more than sufficient* answers became equal to that of the *less than sufficient* answers with absolute dominance of the *sufficient* answers (72%).

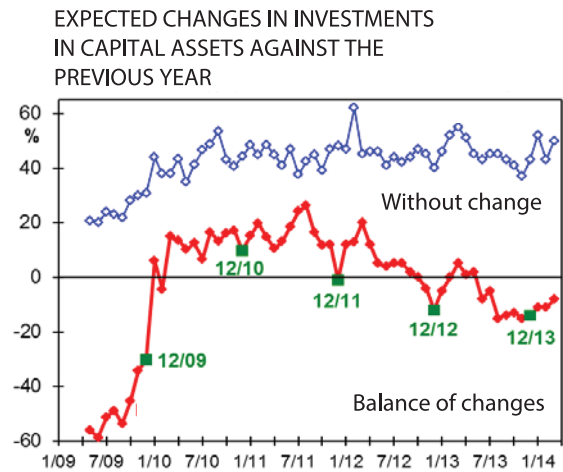


Fig. 7

**Enterprises' investment plans**

*The industry keeps maintain an investment pause (Fig. 7).* The balance of investment intentions remains in the negative area (that is, the number of answers about the expected decrease in investments was higher than that about possible growth in investments) for ten months running. A nominal improvement of the index from -15 points in November-December 2013 to -8 points in March 2014 can be regarded as a scrap of hope in that gloomy investment situation. ●